CIRSA ENTERPRISES, S.L.U.

2018 Annual Report

April 30, 2019

TABLE OF CONTENTS

CERTAIN DEFINITIONS

"*Argentina Business*" refers to all subsidiaries and businesses of the Group located in Argentina, which were transferred to Nortia, one of the Original Sellers on or about July 3, 2018, and the Argentina Business no longer constitutes a part of the Group's business parameter.

"*Argentina Business Transfer*" refers to the transactions that resulted in the transfer of the Argentina Business and certain other assets from the Cirsa Group to other entities, and which transactions were completed on or about July 3, 2018.

"*Blackstone*" refers to The Blackstone Group L.P. or, as the context may require, one or more funds, managed accounts or limited partnerships managed or advised by The Blackstone Group L.P. or any of its affiliates or direct or indirect subsidiaries from time to time, including Blackstone Capital Partners (Cayman) VII L.P., Blackstone Capital Partners (Cayman) VII.2 L.P., Blackstone Family Investment Partnership (Cayman) VII-ESC L.P. and BTAS Q Holdings L.L.C.

"*Cirsa*" refers to Cirsa Gaming Corporation, S.A., a Spanish limited liability company (*sociedad anónima*) incorporated and existing under the laws of Spain, having its registered office in Terrassa (Barcelona), at Carretera de Castellar, 298, being registered at the Barcelona Commercial Registry in volume 42,002, sheet 102, page B-380.

"*Cirsa Group*" refers to Cirsa and its subsidiaries, which was the group of companies acquired by the Company on July 3, 2018 pursuant to the Original Acquisition Agreement.

"*Company*" refers to Cirsa Enterprises, S.L.U. (formerly, LHMC Bidco, S.L.U.), a limited liability company incorporated under the laws of the Kingdom of Spain, with its registered office in Madrid (Spain), at Calle Serrano 41, 4th floor, 28001 and registered in the Madrid Register of Commerce with number B87959649.

"*EU*" refers to the European Union.

"*euro*" or "€" refers to the single currency of the participating Member States of the EU participating in the third stage of economic and monetary union pursuant to the Treaty on the Functioning of the EU, as amended or supplemented from time to time.

"*Existing Indenture*" refers to the indenture governing the Existing Notes dated July 2, 2018, among *inter alios*, the Issuer, the Company and the Trustee, to which the Company acceded as Guarantor on July 3, 2018 and the Subsidiary Guarantors acceded as Guarantors on October 26, 2018 pursuant to, in each case, a supplemental indenture dated the dates thereof, and as may be further amended and supplemented from time to time.

"*Existing Notes*" refers, collectively, to (i) the €663,000,000 aggregate principal amount of 6.250% senior secured notes due 2023, (ii) the €425,000,000 aggregate principal amount of floating rate senior secured notes due 2023 (the "Existing Floating Rate Notes") and (iii) the $550,000,000 aggregate principal amount of 7.875% senior secured notes due 2023, in each case, issued on July 2, 2018 pursuant to the Existing Indenture.

"*Facility Agent*" refers to Deutsche Bank AG, London Branch, the creditor representative of the lenders under the Revolving Credit Facility Agreement.

"*Group*," "*we*," "*our*," and "*us,*" unless the context requires otherwise, refers to the Company and its subsidiaries.

"*Guarantors*" refers, collectively, to (i) the Company and (ii) the Subsidiary Guarantors.

"*IFRS*" refers to the International Financial Reporting Standards, as adopted by the EU.

"*Indenture*" refers to the indenture governing the Exiting Notes dated July 2, 2018, among inter alios, the Issuer, the Company and the Trustee, to which the Company acceded as Guarantor on July 3, 2018 and the Subsidiary Guarantors acceded as Guarantors on October 26, 2018 pursuant to, in each case, a supplemental indenture dated the dates thereof, and as may be further amended and supplemented from time to time.

"*Issuer*" refers to Cirsa Finance International S.à r.l. (formerly, LHMC Finco S.à r.l.), a limited liability company (*société à responsabilité limitée*) incorporated under the laws of the Grand Duchy of Luxembourg for the purpose of facilitating the Original Acquisition and issuing debt, with its registered office at 2-4, rue Eugène Ruppert, L-2453 Luxembourg, registered with the Luxembourg companies register under number B224669.

"*Original Acquisition*" refers to the acquisition of the Cirsa Group by the Company on July 3, 2018 pursuant to the Original Acquisition Agreement.

"*Original Acquisition Agreement*" refers to the share purchase agreement dated April 27, 2018 relating to the sale and purchase of Cirsa shares and entered into among the Company and the Original Sellers thereunder (including the annexes and schedules thereto), as amended from time to time.

"*Original Sellers*" refers to the sellers of the Cirsa Group, including Manuel Lao Hernández and Nortia Business Corporation, S.L.

"*Revolving Credit Facility*" refers to the revolving credit facilities made available under the Revolving Credit Facility Agreement.

"*Revolving Credit Facility Agreement*" refers to the agreement providing for the Revolving Credit Facility, as entered into on June 22, 2018, and as amended on August 8, 2018, with, among others, the Issuer as original borrower and guarantor, the Company as original guarantor, the Guarantors, the Facility Agent and the Security Agent.

"*Security Agent*" refers to Deutsche Bank Trust Company Americas.

"*Subsidiary Guarantors*" refers to Cirsa, Cirsa International Business Corporation, S.L.U., Gaming & Services de Panama S.A., Promociones e Inversiones de Guerrero, S.A.P.I. de C.V., Uniplay S.A.U., Global Game Machine Corporation, S.A.U., Juegomatic, S.A.U., Integración Inmobiliaria World de México, S.A. de C.V., Cirsa Interactive Corporation, S.L.U., Universal de Desarrollos Electrónicos, S.A.U., Casino Nueva Andalucía Marbella, S.A.U., Genper, S.A.U. and Comercial de Desarrollos Electrónicos, S.A.U.

"*Trustee*" refers to Deutsche Trustee Company Limited.

"*UK*" refers to the United Kingdom of Great Britain and Northern Ireland.

"*United States*," "*USA*" or "*U.S.*" refers to the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.

"*U.S. dollars*" or "*$*" refers to the lawful currency of the United States.

"*VLTs*" refers to Video Lottery Terminals.

FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this annual report, including, without limitation, those regarding the Group's intentions, beliefs or current expectations concerning, among other things, its future financial conditions and performance, results of operations and liquidity; its strategy, plans, objectives, prospects, growth, goals and targets; future developments in the markets in which it participates or is seeking to participate; and anticipated regulatory changes in the industry in which it operates. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "*aim*," "*anticipate*," "*believe*," "*continue*," "*could*," "*estimate*," "*expect*," "*forecast*," "*guidance*," "*intend*," "*may*," "*plan*," "*project*," "*probability*," "*target*," "*goal*," "*objective*," "*should*" or "*will*" or, in each case, their negative, or other variations or comparable terminology.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. The Group cautions you that forward-looking statements are not guarantees of future performance and that the Group's actual financial condition, results of operations and cash flows, and the development of the industry in which it operates, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this annual report. In addition, even if its financial condition, results of operations and cash flows, and the development of the industry in which it operates, 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. Factors that could cause such differences in actual results include:

- the impact of the effects of the economic downturn or political change in Spain and other markets in which we operate;
- risks associated with our other operations outside of Spain;
- we do not control certain of our businesses and are dependent on the actions of our counter-parties in our strategic partnerships, joint ventures and alliances;
- risks associated with the potential loss of our share in the *Sportium* joint venture and the termination of this joint venture;
- 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;
- our ability to maintain our gaming licenses and comply with online gaming rules and regulations;
- our failure to keep up with technological developments in the online 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 cybercrime 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 and business position;
- 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;
- risks associated with a disruption of operations at our manufacturing facilities;
- risks relating to taxes;
- risks associated with security issues in the countries in which we operate;
- risks associated with fluctuations in foreign currency exchange rates;
- 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;
- our inability to enforce representations and warranties under the Original Acquisition Agreement;
- unknown liabilities and insufficient protection from indemnities negotiated in the Original Acquisition Agreement; and
- risks relating to the Existing Notes, the guarantees thereof and our structure.

The foregoing factors and others described under *"Risk Factors"* should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as at the date hereof.

The Group discloses important factors that could cause its actual results to differ materially from its expectations in "*Risk Factors*" and "*Operating and Financial Review and Prospects*." Other sections of this annual report describe additional factors that could adversely affect the Group's business, financial condition or results of operations. Moreover, the Group operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for the Group to predict all such risk factors. The Group cannot assess the impact of all risk factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements as a prediction of actual results.

Any forward-looking statements are only made as at the date of this annual report and, except as required by law or the rules and regulations of any stock exchange on which the Existing Notes are listed, the Group undertakes 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 its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this annual report, including those set forth under "*Risk Factors*."

PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated on November 15, 2017 for the purpose of facilitating the Original Acquisition. Prior to the completion of the Original Acquisition on July 3, 2018, it had no material assets or liabilities, and had not engaged in any material activities, other than those in preparation for the Original Acquisition and the issuance of the Existing Notes. The Company is a holding company that owns the entire share capital of the Issuer and, following the completion of the Original Acquisition, it became the owner of the entire share capital of Cirsa Group.

We started consolidating the results of our group companies at the level of the Company for our consolidated financial statements prepared as of and for the year ended December 31, 2018. For periods prior to that, we consolidated the results of our group companies at the level of Cirsa. The Company's consolidated financial statements as of and for the year ended December 31, 2018 have been prepared from Cirsa's consolidated financial statements for the six months ended June 30, 2018 and thereafter includes the effects of the acquisition by the Company of the Cirsa Group. Accordingly, in this annual report , we include the Company's consolidated financial statements as of and for the year ended December 31, 2018 and Cirsa's consolidated financial statements as of and for the year ended December 31, 2017, in each case, prepared in accordance with IFRS. The Company's special purpose consolidated financial statements as of and for the year ended December 31, 2018 have been audited by Ernst & Young S.L. and their auditor's report thereon is included elsewhere on our investor relations website. We present our financial statements in euro.

In connection with the Original Acquisition, the Argentina Business was transferred from the Cirsa Group pursuant to the Argentina Business Transfer. Accordingly, the Company's special purpose consolidated financial statements as of and for the year ended December 31, 2018 treat the results of the Argentina Business as a discontinued operation. In our special purpose consolidated financial statements as of and for the year ended December 31, 2018, we have restated the comparative financial information as of and for the year ended December 31, 2017 to present it on a consistent basis with our financial information as of and for the year ended December 31, 2018. The purpose of this restatement was to (i) give effect to the treatment of the Argentina Business as a discontinued operation and (ii) consolidate our results at the level of the Company rather than at the level of Cirsa as of and for the year ended December 31, 2017. In such presentation, certain line items in the profit and loss account, balance sheet and statement of cash flows were reclassified in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations."

Unless otherwise indicated, the financial information presented in this annual report as of and for the years ended December 31, 2018 and December 31, 2017 has been extracted from Company's special purpose consolidated financial statements as of and for the year ended December 31, 2018.

We also present in this annual report certain non-IFRS measures, including EBIT, EBITDA, Adjusted EBITDA, EBITDA Margin, Adjusted EBITDA Margin, Capital Expenditures and certain leverage ratios. We present these non-IFRS measures in this annual report because we believe that they provide useful information regarding a company's ability to service and incur indebtedness and management uses them as a measure of evaluating our performance. These non-IFRS measures are not measurements of operating performance under IFRS and should not be considered a substitute for operating income, net income, cash flows from operating activities or other profit and loss account or statement of cash flows information, or as a measure of profitability or liquidity, and do not necessarily indicate whether cash flow will be sufficient or available for cash requirements. Therefore, the non-IFRS measures presented in this annual report should be viewed as supplementary to our consolidated financial statements included elsewhere on our investor relations website and 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 such measures identically, the presentation may not be comparable to similarly entitled measures of other companies and you are cautioned not to place undue reliance on such financial information.

For a discussion of our financial information, see *"Selected Financial and Other Information,"* "*Operating and Financial Review and Prospects*" and the financial statements included elsewhere on our investor relations website.

Certain amounts and percentages included in this annual report have been rounded. Accordingly, in certain instances, the sum of the numbers in a column of a table may not exactly equal the total figure for that column.

SELECTED FINANCIAL AND OTHER INFORMATION

The selected consolidated historical and other financial information is qualified in its entirety by reference to, and should be read in conjunction with "*Operating and Financial Review and Prospects*" and the financial statements included elsewhere on our investor relations website. See "*Presentation of Financial Information.*"

Historical Financial Information

(in € millions)	For the year ended December 31, 2017 (restated)	2018 (audited)
Summary Profit and Loss Account Information:		
Operating revenues	**1,661.6**	**1,740.2**
Bingo Prizes	—	—
Variable rent	(265.6)	(271.1)
Net operating revenues	**1,395.9**	**1,469.1**
Consumption	(68.1)	(71.3)
Personnel	(228.1)	(281.9)
Gaming taxes	(492.2)	(511.0)
External supplies and services	(256.7)	(276.7)
Depreciation, amortization and impairment	(176.5)	(192.3)
Changes in trade provisions	(2.7)	(3.3)
Earnings before interest and taxes	**171.6**	**132.7**
Financial results	(64.2)	(129.6)[a]
Foreign exchange results	(1.3)	(11.5)
Results on sale of non-current assets	(5.0)	8.5
Profit before tax	**101.1**	**0.0**
Income tax	(39.1)	(28.4)
Profit after tax from discontinued operations	25.6	(240.4)[a]
Minority interest	(16.8)	(15.3)
Net profit	**70.8**	**(284.0)**

(in € millions)	As of December 31, 2017 (restated)	2018 (audited)
Selected Balance Sheet Information:		
Cash and cash equivalents	212.2	152.2
Total assets	1,615.5	2,840.8
Total debt[(1)]	1,097.3	1,643.1
Total net debt[(2)]	885.1	1,490.9
Total shareholders' equity	12.9	666.8

Non-IFRS Measures

(in € millions, unless indicated otherwise)	As of and for the year ended December 31, 2017	2018
	(unaudited)	
Other Financial Information:		
EBITDA[(3)]	350.8	
Adjusted EBITDA[(3)]		368.8[(b)]
EBITDA Margin[(4)]	25.1%	
Adjusted EBITDA Margin[(4)]		25.1%[(b)]
Capital Expenditures[(5)]	144.2	160.2
Ratio of Total net debt to Adjusted EBITDA		4.0x

(a) For the year ended December 31, 2018, our financial results were impacted by the one-off charges associated with the financing of the Original Acquisition, including the early redemption of Cirsa's then outstanding senior notes. In addition, for the year ended December 31, 2018, profit after tax from discontinued operations and net profit include the negative €264.6 million impact of the transfer of the Argentina Business. See note 20 to our special purpose consolidated financial statements for the year ended December 31, 2018.

(b) Our EBITDA for the year ended December 31, 2018 was €328.3 million, which includes one-time expenses of €40.5 million related to the completion of the Original Acquisition. Adjusted for this one-time expense, our Adjusted EBITDA for the year ended December 31, 2018 was €368.8 million. Based on EBITDA of €328.3 million, our EBITDA margin was 22.3%.

	As of December 31, 2018									
	Spain	**Panama**	**Colombia**	**Mexico**	**Italy**	**Costa Rica**	**Dominican Republic**	**Peru**	**Morocco**	**Total**
Certain Operating Information (number of units)										
Slot machines(*)	40,234	7,902	6,368	6,307	9,989	838	829	4,239	282	**76,988**
Tables	38	18	237	146	—	25	87	44	28	**623**
Casinos	4	33	66	—	—	8	6	29	2	**148**
Bingo halls	37	—	—	21	12	—	—	—	—	**70**
Arcades	190	—	—	—	—	—	—	—	—	**190**
Betting points	2,498	5	77	—	—	—	—	—	—	**2,580**

(*) These figures include the total number of slot machines in all divisions.

(1) Total debt of €1,634.1 million as of December 31, 2018 was comprised of (i) bank debt of €84.7 million recorded under "Credit institutions" as non-current liabilities and current liabilities, (ii) capital lease obligations of €1.4 million recorded under "Credit institutions" as non-current liabilities and current liabilities, (iii) tax deferrals of €8.5 million recorded under "Tax authorities" as non-current liabilities and under "Other creditors" as current liabilities, (iv) promissory notes and other loans of €23.6 million recorded under "Other creditors" as non-current liabilities and current liabilities and (v) €1,571.3 million of the Existing Notes recorded under "Bonds" as non-current liabilities and current liabilities (of which aggregate capitalized financing costs were €46.4 million).

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

(3) EBITDA represents profit/(loss) before tax, profit/(loss) on the sale of non-current assets, foreign exchange results, financial results, depreciation, amortization and impairment and changes in trade provisions (where applicable). Adjusted EBITDA represents EBITDA adjusted for one-time expenses incurred in relation to the Original Acquisition. 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 profit and loss account information, or as measures 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.

The following table provides a reconciliation of our Profit before tax to EBITDA for the financial years 2017 and 2018:

	Excludes Argentina	
	For the year ended December 31,	
(in € millions)	**2017**	**2018**
Profit before tax	101.1	0.0
Loss/(Profit) on sale of non-current assets	5.0	(8.5)
Foreign exchange results	1.3	11.5
Financial results	64.2	129.6
Depreciation, amortization and impairment	176.5	192.3
Changes in trade provisions	2.7	3.3
EBITDA	**350.8**	**328.3**

The following table provides a reconciliation of the Company's EBITDA to Adjusted EBITDA for the year ended December 31, 2018:

(in € millions)	**For the year ended December 31, 2018**
EBITDA	**328.3**
Original Acquisition related expenses(i)	40.5
Adjusted EBITDA	**368.8**

(i) Represents one-time expenses of €40.5 million related to the completion of the Original Acquisition.

(4) EBITDA Margin represents EBITDA divided by net operating revenue. Adjusted EBITDA Margin represents Adjusted EBITDA divided by net operating revenue.

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

BUSINESS

Overview

We are one of the leading gaming companies in Spain and Italy, as well as in a number of countries in Latin America (with a focus on Panama, Colombia, Mexico, Peru, Costa Rica and the Dominican Republic), engaged in the operation of slot machines, casinos and bingo halls. We also manufacture slot machines for the Spanish market. While our business historically included operations in Argentina, we exclude Argentina here since July 3, 2018, the Argentina Business is no longer a part of our Group. As of December 31, 2018, we operated 76,988 gaming machines, 148 casinos, 70 bingo halls, 623 gaming tables, 2,580 betting locations and 190 arcades.

We believe that we are the leader in the Spanish private gaming market, where, as of December 31, 2018, our key activities included: the operation of slot machines, in which we believe that we are the #1 operator with 40,234 slot machines operated; the operation of four casinos; the operation of bingo halls, in which we believe that we are the #1 operator with 37 bingo halls; and the manufacture of slot machines, in which we believe that we are the #1 manufacturer, with over 20,301 slot machines and gaming kits manufactured in the year ended December 31, 2018. We believe that we are also the #1 sports betting operator, through our 50:50 *Sportium* joint venture with the Ladbrokes sport betting business of GVC Holdings Plc, which offers sport betting products through outlets and betting machines installed in 2,498 slot arcades, bingo halls, bars and casinos in Spain, as of December 31, 2018.

In Italy, we have established a strong presence in the slot machine market with the operation of 9,989 slot machines and VLTs across all our divisions situated in approximately 1,935 locations across central and northern Italy as of December 31, 2018.

In Panama, we believe that we are the #1 gaming operator with the operation of 33 casinos and a total of 18 gaming tables and 7,902 slot machines as of December 31, 2018.

In Colombia, we believe that we are the #1 gaming operator with the operation of 66 casinos and a total of 6,368 slot machines and 237 gaming tables as of December 31, 2018.

In Mexico, we believe that we are a leader in the gaming industry with our 21 bingo halls which include over 6,307 slot machines as of December 31, 2018.

In Costa Rica, we believe that we are the #1 gaming operator with eight casinos, 25 gaming tables and 838 slot machines as of December 31, 2018.

In Peru, we believe that we are a leading gaming operator following our acquisition of nine casinos in 2014 and 17 casinos in 2017. As of December 31, 2018, we operated 29 casinos in Peru with 44 gaming tables and 4,239 slot machines.

In the Dominican Republic, we believe that we are the #1 gaming operator with our six casinos with a total of 87 gaming tables and 829 slot machines as of December 31, 2018.

In Morocco, we believe that we are a leading gaming operator. We have a majority stake in Agadir's largest casino and also operate casino Le Mirage in Agadir, with a total of 28 gaming tables and 282 slot machines as of December 31, 2018.

We believe that we have a well-balanced business with strong geographical diversification. These factors, when combined with the economies of scale resulting from our size, strengthen our financial profile and provide stability in our cash flows.

For the year ended December 31, 2018, our net operating revenue and Adjusted EBITDA were €1,469.1 million and €368.8 million, respectively. On a historical basis, our net operating revenue increased by 5.2% and our Adjusted EBITDA increased by 5.1% for the year ended December 31, 2018 compared to our net operating revenue and Adjusted EBITDA for the year ended December 31, 2017. In addition to our scale, our revenues and Adjusted EBITDA are diversified by geography and by business segment, and for the year ended December 31, 2018, 96% of our EBITDA was generated in countries which currently have an investment grade rating from S&P and Moody's.

The following table shows a breakdown of our consolidated Adjusted EBITDA for the year ended December 31, 2018, by country in which we operated:

ADJUSTED EBITDA MIX BY COUNTRY

Country	**For the year ended December 31, 2018**
Spain	46.6%
Panama	18.8%
Colombia	13.3%
Mexico	8.9%
Italy	6.0%
Other	6.4%
	100.0%

Our Divisions

We have organized our company into four business divisions: Casinos, Slots, Bingo and Business-to-Business (“*B2B*”).

Casinos. (EBITDA €183.0 million for the year ended December 31, 2018): Our Casinos Division operated 148 casinos as of December 31, 2018.

In Spain, our casinos are located in Marbella, Valencia, La Toja and Las Palmas.

In Morocco, our casinos are located in the resort town of Agadir.

In Latin America, we believe that we are the #1 gaming operator in Panama, Colombia, Costa Rica and the Dominican Republic and have achieved a leading position in Peru.

In Panama, we operated 33 casinos with a total of 18 tables and 7,902 slot machines as of December 31, 2018.

In Colombia, we operated 66 casinos with a total of 6,368 slot machines and 237 gaming tables as of December 31, 2018.

In Peru, we operated 29 casinos with 44 gaming tables and 4,239 slot machines as of December 31, 2018.

In Costa Rica, we operated eight casinos with a total of 25 gaming tables and 838 slot machines as of December 31, 2018.

In the Dominican Republic, we operated six casinos with a total of 87 gaming tables and 829 slot machines as of December 31, 2018.

Slots. (EBITDA €141.1 million for the year ended December 31, 2018): Our Slots Division owns and manages slot machines in bars, cafes, restaurants and arcades in Spain and is a network operator for slot machines and VLTs in Italy. This division also includes our *Sportium* joint venture with the Ladbrokes sport betting business of GVC Holdings Plc, a British betting operator, which operates a region-based sports betting business in Spain.

In Spain, we believe that we are the #1 slot machine operator and the #1 sports betting operator.

In Italy, our Slots Division operated 7,426 slot machines and 2,563 VLTs in locations across central and northern Italy as of December 31, 2018.

Bingo. (EBITDA €55.7 million for the year ended December 31, 2018): Our Bingo Division operated 70 bingo halls across Spain, Mexico and Italy as of December 31, 2018.

In Spain, we believe we are the leader of the bingo market which has been modestly improving along with the Spanish economy in recent years. As of December 31, 2018, we operated a total of 37 bingo halls.

In Mexico, as of December 31, 2018, we owned and operated 21 bingo halls which provide a wide entertainment offering, including slot machines and casino-style gaming machines.

In Italy, we hold minority interests in companies (joint ventures with local partners) that owned and operated 11 bingo hall businesses as of December 31, 2018. We also operate one bingo hall business which we fully own as of December 31, 2018. Our bingo hall operations in Italy also operated 461 slot machines as of December 31, 2018.

B2B. (EBITDA €12.7 million for the year ended December 31, 2018): Our B2B Division designs, manufactures and distributes slot machines and gaming kits for the Spanish market and also develops interactive gaming systems, concentrating on ready-to-market products such as interconnected slot machines, linked bingo products and electronic online lotteries. We believe that we are the #1 manufacturer in the Spanish market, with over 20,301 slot machines and gaming kits manufactured in the year ended December 31, 2018.

Our Strengths

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

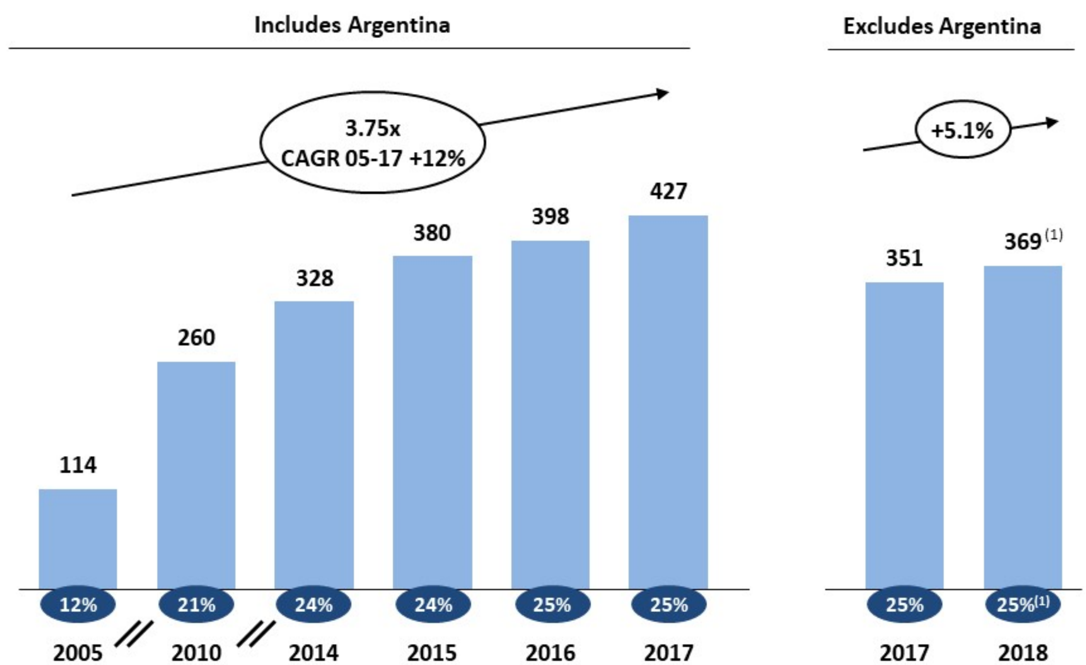
- ***Business and Geographic Market Diversification.*** We are a well-diversified gaming company with four distinct and complementary business divisions within the industry and operations in eight countries outside of Spain. We believe that the diversity of our revenue stream helps improve the stability of our cash flow profile by reducing our dependence on any single geographic market, economy or business segments in the gaming industry. While we focus our international expansion in markets with growth potential, we favor countries with less volatile economic and regulatory environments; for the year ended December 31, 2018, 96% of our EBITDA was generated in countries which currently have an investment grade rating from S&P and Moody's. Our expansion in Latin America since 2010 has been concentrated in Colombia, Costa Rica, Peru the Dominican Republic and Mexico and we have made substantial investments in our Panama business. In addition, our diversified operations allow us to identify opportunities for growth in known or adjacent markets by using our operating experience across the gaming industry in Spain, Italy and Latin America, as demonstrated by our expansion into Costa Rica and Morocco in 2015.

- ***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, 2018, 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 in Spain.

- ***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, site owners and gaming machine and other suppliers. For our casinos in Panama, casino licenses are exclusive for a geographic area and granted for long periods. 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 40,234 slot machines, as of December 31, 2018, 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. We also believe that due to our size and resources, we are well-positioned to acquire attractive slot machine assets as consolidation opportunities arise in the fragmented Spanish slot machine industry.

- ***Resilient Business with Demonstrated Financial Performance***. Our EBITDA has grown every year from 2005 to 2012, including during periods of economic and regulatory turbulence. Including the Argentina Business, our EBITDA increased from €253.7 million for the year ended December 31, 2013 to €427.0 million for the year ended December 31, 2017, an increase that has been achieved despite, in certain cases, adverse macroeconomic conditions. Excluding the Argentina Business, our EBITDA was €350.8 million for the year ended December 31, 2017 and our Adjusted EBITDA was €368.8 million for the year ended December 31, 2018, reflecting an increase of 5.1%. Our strong financial profile over time is underpinned by our well balanced business and geographical diversification and our size which provides us with economies of scale. Our capital expenditure for the year ended December 31, 2018 was €160.2 million of which only 72% was for maintenance expenditure, hence leaving us with substantial cash flow and growth expenditure flexibility. Our cash flow generation and flexibility to invest in growth capital expenditure and/or strategic acquisitions is driven by (i) our strong profitability; (ii) our relatively limited working capital investment requirements; (iii) our disciplined capital expenditure strategy; and (iv) our limited overall corporate tax outflow for our Spanish operations. The following chart illustrates the growth of our EBITDA between 2005 and 2017 (including the Argentina Business) and our EBITDA for 2017 and Adjusted EBITDA for 2018 (excluding the Argentina Business):



(1) Represents our Adjusted EBITDA and Adjusted EBITDA margin for the year ended December 31, 2018. Our EBITDA for the year ended December 31, 2018 was €328.3 million, which includes one-time expenses of €40.5 million related to the completion of the Original Acquisition. Adjusted for this one-time expense, our Adjusted EBITDA for the year ended December 31, 2018 would have been €368.8 million. Based on EBITDA of €328.3 million, our EBITDA margin was 22.3% for the year ended December 31, 2018.

- ***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. The key members of the senior management team, including our managing directors, chief executive officer, general manager, chief financial officer and legal director, have been in place since our core strategy was implemented in 2006. Besides their track record in managing the business during the severe economic downturn in Spain and Italy, our management team has extensive experience in the Latin American gaming industry, and has developed expertise in addressing the challenges that may arise in those markets. For example, the management team has implemented a range of marketing and efficiency programs including targeted marketing and network-oriented data collection to identify and attract specific clients and increase the operating efficiency throughout our operations. A portion of the compensation of our senior management team in the past had been based on achieving financial targets and certain senior managers have reinvested a substantial portion of their transaction bonus in connection with the Original Acquisition in the Group at a parent company level.

Our Strategies

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

- ***Consolidate market leadership position in Spain***. We intend to continue to consolidate our leadership position in Spain, where we are the market leader in the slots, bingo, sports betting and slot machine production segments. The Spanish slots industry remains fragmented, with more than 6,800 slot machine operators, and we plan to continue to take advantage of consolidation opportunities. In our B2B business, we have maintained our leadership position in Spain in a highly competitive market and intend to leverage this position to increase sales in the slot cabinets and kits and refurbishments segments. In addition, we continuously try to increase revenues more than costs.

- ***Continue to improve performance of existing and future operations***. We will focus on improving the performance of our existing and future casinos through our "gold mine" strategy. This strategy means that after we identify an attractive location, we seek to achieve optimum performance by increased slot machine and gaming table density and expanded hall surface area. If warranted by the hall's performance, we may then consider steps such as a further expansion to adjacent premises, a relocation to larger and better located premises and, ultimately, acquiring or constructing a new casino. Through the execution of our "gold mine" strategy, since 2010, we have increased the number of slot machines in our casinos by more than 11,000, expanded the surface area of 78 casinos and opened 94 new casinos.

- ***Enhance efficiency and productivity programs across businesses and geographies***. We will seek to build upon the efficiency and productivity initiatives and synergies achieved in prior periods. We will continue to implement best practices across our markets to improve efficiency and productivity and seek to maintain or improve our current EBITDA margins. In our slots business, this will entail further enhancing the profitability of our slot machine portfolio, including opportunistic slot machine rotations and replacements. In Italy, we are focused on optimizing placement of slot machines and VLTs and achieving favorable terms from our gaming machine suppliers. In our Casinos Division, we intend to optimize the performance of our casinos through the expansion of our better performing halls and investment in additional gaming machines. In our Bingo Division, we have discontinued (closed or sold) 13 bingo halls in Spain since the start of 2014 and will continue to seek to close underperforming halls in order to improve profitability.

- ***Continue proactive marketing and sales approach***. We will continue to develop and implement our proactive and customer-oriented marketing and sales approach, which has been added to our traditional product-oriented approach. Our marketing and sales strategy can be summarized as "looking for customers rather than waiting for them." Our approach, which is supported by in-house commercial IT tools and applications, includes targeted marketing and network-oriented data collection to identify, attract and retain specific clients and client profiles. Inside the gaming hall, we focus on customer value identification and management, we regularly review the gaming offer and lay-out and use a pricing strategy based on customer demand. We employ CRM customer segmentation to approach different targets, such as visits, frequency and value and use customer loyalty and retention programs to improve customer visits and customer contribution.

- ***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 Division, we will continue to focus our research and development efforts on maintaining our leadership in the Spanish slots market. We intend to continue our successful track record of acquisitions, with a particular focus on the acquisition of gaming operators in Spain and adjacent geographies both to Spain and Latin America, based on our well-defined and disciplined approach. In our acquisitions, we target established, attractive casino businesses in markets with a relatively stable economic and regulatory environment where we can enhance their operations and financial performance with our operational expertise. For example, we acquired 17 additional casinos in Peru in 2017 and in 2018 we acquired one additional casino in Morocco, one additional casino in the Dominican Republic and one additional bingo hall in Mexico. We also consider selective acquisitions in geographic markets adjacent to our traditional Spanish and Latin American operations, such as our acquisition in 2015 of a casino in the resort town of Agadir, Morocco and our entry into the Costa Rica market (which is adjacent to Panama) in 2015 with the acquisition of seven casinos.

Our Divisions

We have four business divisions: Slots, Casinos, Bingo and B2B.

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 VLTs in Italy. We also have a joint venture with GVC Holdings Plc for the operation and further development of a region-based sports betting business in Spain. The following table presents the number of slot machines and VLTs that we operated in our Slots Divisions in Spain and Italy, respectively, as of December 31, 2017 and 2018. Slot machines operated in other divisions are not presented in the following table.

	As of December 31,	
Slot Machines	**2017**	**2018**
Slot Machines, Spain	29,885	31,392
Slot Machines, Italy	8,545	7,426
VLTs, Italy	2,565	2,563
Total	**40,995**	**41,381**

Spain

As of December 31, 2018, we directly, or indirectly through slot machine sub-operators, controlled, in our Slots Division, 31,392 slot machines located in approximately 18,696 sites, primarily in bars. We plan to continue to optimize our slot machine portfolio in Spain. As of December 31, 2018, we owned and operated 190 arcades, with an average of approximately 24 slot machines per arcade.

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 encourage 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, 2018, these loans and other incentives (such as contributions to bar decorations and equipment) amounted to approximately €10.5 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, 2018, we had agreements (or sub-operator agreements) covering approximately 29% of the slot machines we operated in Spain. Revenue sharing to sub-operators under these participation agreements totaled approximately €20.7 million for the year ended December 31, 2018.

Coin Collection and Information Systems. We carry out coin collection through approximately 545 company-employed collectors who utilize our fleet of vehicles. Our cash collectors each follow pre-arranged routes on their daily collection runs and are responsible for approximately 58 machines per route.

We are in the process of migrating from a computerized information and collection control system to a network-based information collection system to monitor and control our slot operations. This network-based information system will link our slot machines located in Spain to an internal central database and will allow us to receive real time usage information (including data such as operating frequency, payouts, and cash levels by machine) that we will be able to analyze through our current data analysis systems without the need to download this information from each machine during collection runs.

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 2018, approximately 73.9% of our new slot machines for our Slots Division in Spain were manufactured by our B2B Division.

Sportium—Sports Betting. We operate *Sportium*, a sports-betting business, as a 50-50 joint venture with GVC Holdings Plc. *Sportium* is present in Spain with a wide multichannel network with 2,498 points of sale in casinos, bingo halls, gambling halls, betting venues and bars, complemented with an online presence. *Sportium* is the only player present with leading positions in both the online and retail sports betting markets. *Sportium* also includes our Spanish online gaming operations. *Sportium* began its international expansion in Panama in 2016 and further expanded in 2018 opening operations in Colombia.

Italian Slots and VLT Businesses

As of December 31, 2018 we operated 7,426 slot machines in approximately 1,935 locations across central and northern Italy as part of our Slots Division. Our bingo hall operations in Italy also operated 461 slot machines as of December 31, 2018. 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 pay-outs and taxes due to the ADM) 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.

In addition to slot machines, we currently operate 2,563 VLTs placed in bingo halls and arcades located mainly in central and northern Italy and connected to our existing Italian slot machine network. We operate approximately 26% of the VLTs directly through Cirsa Italia and 74% through Orlando Italia, a subsidiary of our 50:50 joint venture with Grupo Berruezo, Orlando Play S.A. Cirsa Italia owns the legal concession (expiring in 2022) to operate 2,583 VLTs and enters into agreements with site owners for the operation of such VLTs on their premises. 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. Our slots and VLT operations in Italy are subject to occasional regulatory interventions which impact our results of operations. For example, in accordance with the requirements of the 2016 Stability Law, Cirsa Italia has reduced the number of authorizations relating to AWP slot machines that it held by 15.2% as of December 31, 2017, and further reduced the number of authorizations relating to AWP slot machines that it held by 19.7% as of December 31, 2018, achieving the mandated reduction level of 34.9%, which was required to be achieved by mid-June 2018. See "*Regulation—Italy*."

Casinos Division

As of December 31, 2018, we operated a total of 148 casinos, four casinos in Spain and 144 casinos internationally. Our casinos offer a variety of gaming options, from gaming tables to 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).

The following table sets forth the number of casinos, slot machines and tables operated by our Casinos Division as of December 31, 2017 and 2018.

	As of December 31,					
	2017			2018		
Casino Operations by Country	**Casinos**	**Slots**	**Tables**	**Casinos**	**Slots**	**Tables**
Panama	33	7,729	18	33	7,902	18
Colombia	66	6,285	244	66	6,368	237
Peru	29	4,253	44	29	4,239	44
Costa Rica	8	873	27	8	838	25
Spain	4	295	41	4	305	38
Dominican Republic	6	674	64	6	829	87
Morocco	1	190	19	2	282	28
Total	**148**	**20,299**	**457**	**148**	**20,763**	**477**

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 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 poker market. Many of our casinos in Latin America offer enhanced types of casino-style slot machines and other electronic games such as blackjack or roulette through multi position electronic gaming machines, which have proven to be popular in that market.

Casino Operations by Country

The following is a description of our casino operations by country, except as otherwise indicated, as of December 31, 2018:

Spanish Casino Operations

- ***Casino Nueva Andalucía,*** is located in one of the prime tourist locations of Spain, Marbella. This casino hosted 10 gaming tables and 77 slot machines as of December 31, 2018. We believe this casino was the fourth largest of a total of 53 casinos in Spain, based on total revenues for the year ended December 31, 2018. The operating license for this casino has a term of 15 years and was renewed in January 2019 until September 2033.

- ***Casino de Valencia,*** is located in the city center of Valencia. We believe this casino was the fifth largest of a total of 53 casinos in Spain, based on total revenues for the year ended December 31, 2018. The casino hosted twelve gaming tables and 130 slot machines as of December 31, 2018. The operating license for this casino will be eligible for renewal in November 2019.

- ***Casino La Toja,*** in which we own a 50% interest, is located in La Toja, an historic spa resort area in Spain. Casino La Toja is a seasonal casino, attended mostly by tourists from Portugal and hosted 9 gaming tables and 19 slot machines as of December 31, 2018. The operating license for this casino is perpetual.

- ***Casino Las Palmas,*** which was acquired in February 2015, is located in the Canary Islands. This casino hosted seven gaming tables and 79 slot machines as of December 31, 2018. The operating license for this casino runs through June 2025.

Colombian Casino Operations

- ***Casino Rio (Bogota), Casino Hollywood, Casino Rock 'N Jazz, Casino Rio (Medellin) and Casino Caribe La Playa*** are our five largest casinos in Colombia. Casino Rio (Bogota), Casino Hollywood and Casino Rock 'N Jazz, are located in Bogota and contained, as of December 31, 2018, 142, 229 and 115 slot machines, respectively. Casino Rio (Medellin) and Casino Caribe La Playa are located in Medellin and contained 215 and 339 slot machines, as of December 31, 2018, respectively. Our casino operations in Colombia are conducted through our 50.0001% interest in Winner Group, S.A.

- ***Other Casinos in Colombia***. In addition to the five casinos above, we operated a total of 61 additional casinos in Colombia with an aggregate of 5,328 slot machines and 150 gaming tables as of December 31, 2018. These additional casinos are located in Bogota, Medellin, Cali, Costa Norte, Barranquilla, Eje Cafetero and Cartagena. Gaming licenses for certain of our casinos in Colombia were renewed in 2016 and the remainder of our gaming licenses were renewed in 2017. The gaming licenses for these casinos run until November 2021.

Panamanian Casino Operations

- ***Majestic Casino***. Our traditional casino in Panama, Majestic Casino, in which we hold a 50% interest as of December 31, 2018, operates 18 gaming tables and 357 slot machines and is located in a prime section of Panama City.

- ***Fantastic Vista Alegre, Bingo 90, Fantastic Los Andes, Fantastic La Doña*** and ***Fantastic Los Pueblos.*** These are electronic casinos that, as of December 31, 2018, operated 346, 288, 479, 444 and 408 slot machines, respectively.

- ***Other Casinos in Panama***. In addition to the casinos described above, as of December 31, 2018, we operated a total of 27 additional casinos in Panama with 5,580 slot machines both directly and through various joint ventures. These additional casinos are located in Panama City, David, Penonome, Santiago, Colón, Chorrera, Arraiján (Vista Alegre), Aguadulce and Chitré.

Dominican Republic Casino Operations

- ***Casino La Hispaniola*** is located in the Hispaniola Hotel & Casino in Santo Domingo, the capital of the Dominican Republic. The Hispaniola Hotel & Casino owns the premises and holds the casino 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.

- ***Other Casinos in the Dominican Republic***. In addition to *Casino La Hispaniola*, as of December 31, 2018, we operated five additional casinos in the Dominican Republic, comprised of three additional casinos in Santo Domingo and two casinos in Santiago de los Caballeros *(Grand Victoria* and *Grand Admiral),* the Dominican Republic's second largest city. This includes our acquisition in November 2018 of a 100% interest in a casino located in The Renaissance Hotel of Santo Domingo, which operates 26 tables and 130 slot machines, for a total cash consideration of $14 million. All of our casinos in the Dominican Republic operate under gaming licenses granted to the hotels in which they are located. While the terms of our operating leases at each hotel vary slightly, we generally rent the casino space directly from the hotels and retain all casino revenues. Our six casinos in the Dominican Republic operated 829 slot machines and 87 gaming tables as of December 31, 2018.

Peruvian Casino Operations

- ***Majestic Lima*** casino is located at the JW Marriot Hotel in Lima, the capital of Peru. The casino had 27 gaming tables and 200 slot machines, as of December 31, 2018.

- ***Casino Miami*** is located in Lima and contained a total of 216 casino-style slot machines and 17 gaming tables, as of December 31, 2018.

- ***Other Casinos in Peru***. As of December 31, 2018, we operated 27 additional casinos in Peru, which have an aggregate of 3,823 slot machines. This includes 17 electronic casinos in Peru, acquired on May 25, 2017, which added approximately 2,400 slot machines to our operations.

Costa Rican Casino Operations

In Costa Rica, casino licenses are granted to hotels and have no maturity term. Under our operating agreements with the hotels, we retain all revenues from the casino operations and pay the hotel a monthly rent.

- ***Fiesta Casino Alajuela*** is located at the Holiday Inn hotel next to the international airport in San Jose, the capital of Costa Rica. The casino had 186 slot machines and nine tables as of December 31, 2018. Our agreement with the hotel matures in July 2024 and has a renewal option for up to 20 additional years.

- ***Fiesta Casino Presidente*** is located at the Presidente hotel on the main commercial avenue in San Jose. The casino had 202 slot machines as of December 31, 2018. Our agreement with the hotel matures in October 2023 and has a renewal option for up to 20 additional years.

- ***Fiesta Casino Heredia*** is located at the America hotel in the metropolitan area of San Jose. The casino had 151 slot machines and four tables as of December 31, 2018. Our agreement with the hotel matures in March 2028.

- ***Fiesta Casino Herradura*** is located at the Wyndham hotel in the metropolitan area of San Jose. The casino had 75 slot machines and five tables as of December 31, 2018. Our agreement with the hotel matures in August 2027.

- ***Fiesta Casino Aurola*** is located at the Holiday Inn hotel in downtown San Jose. The casino had 87 slot machines and three tables as of December 31, 2018. Our agreement with the hotel matures in June 2034.

- ***Other Casinos in Costa Rica***. We operated three additional small casinos in the cities of Perez Zeledon, San Carlos and Puntarenas with a combined offer of 137 slot machines and four tables as of December 31, 2018.

Moroccan Casino Operations

In Morocco, casino licenses are granted to hotels and have no maturity term.

- ***Casino Atlantic:*** On December 9, 2015 we acquired an 82% stake in *Casino Atlantic* in Agadir, Morocco, a resort town on Morocco's South Atlantic coast. Under our operating agreement with the Atlantic Palace Hotel, which matures in August 2025, we retain all revenues from the casino operations and pay the hotel a monthly rent. The casino operated 186 slot machines and 20 tables as of December 31, 2018.

- ***Casino Le Mirage:*** On February 22, 2018 we acquired a 50.9% stake in *Casino Le Mirage* in Agadir, Morocco. Our operating agreement with hotel Les Jardins Club de Agadir matures in July 2021 and allows us to renew the agreement for additional periods of five years. The casino operated 96 slot machines and eight tables as of December 31, 2018.

Bingo Division

Spain. We are the leader of the bingo market in Spain, with a total of 37 bingo halls as of December 31, 2018.

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 offset the decline of traditional bingo revenues.

During the year ended December 31, 2018, our bingo halls in Spain received approximately 4.7 million visitors with an average wagered amount of approximately €72.30 per visit. In connection with efforts to reduce our cost base and enhance our portfolio, we have closed or sold underperforming halls in Spain from time to time, and may close or sell underperforming bingo halls in Spain in the future.

Mexico. We hold a license and the right to operate 29 bingo halls in Mexico, of which 21 were operating as of December 31, 2018. We acquired one new bingo hall in Guadalajara during 2018, for total cash consideration of €16 million, we opened two new bingo halls in Manzanillio and Vallarta during 2017, and closed an underperforming bingo hall in 2016. We have made significant investments in our bingo halls in Mexico in order to remodel and expand our facilities, increase and optimize the slot machines portfolio in our halls and implement the "Casino Life" concept. The "Casino Life" concept offers our bingo hall customers a wide range of entertainment including cafes, bars, live music, sports betting, electronic bingo machines, slot machines and gaming tables. We have enhanced our offering in bingo halls by installing 146 gaming tables and 6,307 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 owned and operated eleven bingo hall businesses in Italy as of December 31, 2018. We also operate one bingo hall business which we fully own.

B2B Division

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 online 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 pay-out, aggregate prize pay-out 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. As of December 31, 2018, the average selling price of one of our slot machines is approximately €3,259. From time to time, we provide volume discounts to purchasers.

We also 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,	
	2017	**2018**
Total slot machines	23,386	22,563

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 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: (i) the Slots Division, (ii) independent slot machine operators, (iii) controlled distributors, and (iv) 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:

	Year ended December 31,	
Distribution channels (in %)	**2017**	**2018**
Slots Division	36.8	31.8
Independent slot machine operators	9.9	8.5
Owned slot machine distributors	30.5	30.0
Independent slot machine distributors	22.8	29.7
Total	**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, 2018, we had a team of over 96 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, online 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 is also used in the network for our Italian VLT business and Spanish slots operations.

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 Egasa, 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 characterized 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 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 increased 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 other things, 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 Novomatic. 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 generally have been successful in introducing popular new games in the past and, because of our continuing commitment to research and development, we believe that we can 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, 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 slot machines in video formats which allow a wide variety in choice of games, including poker, blackjack, keno and bingo. However, there can be no assurance that these technological and other changes will allow us to continue to innovate and compete effectively.

Property, Plant and Equipment

We lease our principal executive offices which are located at Carretera de Castellar, 298, Terrassa (Barcelona), Spain, and are owned by Nortia.

Employees

We employed 14,398 employees as of December 31, 2018. Most of our employees have a permanent employment contract. The following tables set forth a breakdown of our employees by the main category of activity and geographic area as of December 31, 2018:

Category of activity	Number
Slots	2,435
Casinos	7,876
Bingo[1]	3,296
B2B	405
Corporate	386
Total	14,398

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

Geographic area	Number
Spain	4,448
Italy[1]	563
Colombia	2,739
Panama	1,482
Dominican Republic	1,047
Mexico	2,031
Peru	1,283

Other	805
Total	14,398

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

In Spain, 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 and La Toja, 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 Desarollos 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.

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 production facilities and our premises 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. We are required to obtain environmental licenses for our production facilities and are also subject to periodic inspections by regulatory authorities.

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

Arbitration relating to our Sportium joint venture

On December 2, 2013, Ladbrokes B&G and Cirsa entered into a joint venture agreement in connection with the provision, under the *Sportium* brand, of sports-betting, both online and through betting machines. In March 2018, GVC Holdings plc acquired the entire issued share capital of Ladbrokes Coral Group, which included Ladbrokes B&G, Cirsa's joint venture partner. In July 2018, Cirsa was acquired by Blackstone. A dispute has arisen between Cirsa and Ladbrokes B&G regarding the meaning and scope of the change of control provisions under the *Sportium* joint venture agreement and, more specifically, whether it grants the parties reciprocal rights of protection where a competitor acquires one of the partners of the *Sportium* joint venture.

On July 11, 2018 Cirsa filed a request for arbitration proceedings against Ladbrokes B&G before the *Corte de Arbitraje del Ilustre Colegio de Abogados de Madrid* ("*CIMA*"), claiming, among other things, that GVC's acquisition of Ladbrokes B&G was a change of control according to the joint venture agreement and asserting Cirsa's right to acquire Ladbrokes B&G's shares in *Sportium* at fair market value due to the change of control provision. On September 10, 2018, Ladbrokes B&G filed its response and initiated a counterclaim asserting that Blackstone's acquisition of Cirsa was a change of control according to the joint venture agreement and, accordingly, Ladbrokes B&G has the right to acquire Cirsa's shares in the *Sportium* joint venture. On March 29, 2019, Cirsa filed its statement of claim, where it developed the facts and legal grounds underlying its claim against Ladbrokes B&G. Ladbrokes B&G is required to submit the statement of defense and counterclaim by June 3, 2019. The arbitration proceedings are in its early stages and we are unable to provide an assessment of the possible outcome at this time. See "*Risk Factors—Risks Relating to the Gaming Industry and Our Business— There is a risk that we may lose our share in the Sportium joint venture and that our existing joint venture in relation to Sportium may terminate*."

Criminal proceedings relating to Mutua Universal

On February 16, 2016, Cirsa Gaming Corporation was served with two decisions issued by the Instruction Court No. 21 of Barcelona (the "*Instruction Court*") by means of which Cirsa Gaming Corporation (i) was called to appear before the Instruction Court as a third party with direct civil liability in the criminal proceedings initiated against Mutua Universal and eleven of its managers; and (ii) was ordered to deposit the amount of €1,475,523.20 in order to cover its potential civil liability. The Instruction Court's basis for issuing the orders to Cirsa Gaming Corporation (along with the other 2,289 other clients of Mutua Universal) was the presumption that Cirsa Gaming Corporation had recognized benefits resulting from criminal offenses committed by Mutua Universal and eleven of its managers. On February 16, 2019, pursuant to a new order of the Instruction Court, Cirsa was asked to deposit the amount of €1,475,523.20 in order to cover its potential civil liability. Cirsa intends to comply with this court order and is considering various options to do so.

These criminal proceedings were initiated by the Public Prosecutor and the Social Security Fund after verifying certain allegations that part of the funds Mutua Universal received from the Spanish Social Security were illegally used for promotional activities of Mutua Universal. These activities included different kinds of services that Mutua Universal rendered to its clients. According to media reports, larger companies like Cirsa Gaming Corporation are the principal targets of the order as many of Mutua Universal's other 2,289 clients have since disappeared. Media reporting also indicates that there is no evidence that the companies subject to the Instruction Court's order were conscious that the promotional activities carried out by Mutua Universal which are the subject of the criminal proceedings could be considered criminal offences. While we intend to continue to contest any liabilities determined in respect of this matter, under the Original Acquisition Agreement, the Original Sellers have agreed to indemnify, up to an agreed cap, liabilities arising out of this matter, which we believe will substantially cover any liabilities that are finally determined.

ADM determination

The decision of thhe Regional Administrative Court of Lazio in Italy is pending regarding whether Cirsa Italia is liable to pay €1.6 million of assessed tax obligations of its partner operators which remain outstanding under the 2015 Italian Budget Law, on the basis of joint and several liability. See "*Regulation—Italy.*"

Other Litigation

We are involved in a number of other legal proceedings and claims incidental to the normal conduct of business. We believe that these other proceedings and claims will not individually or in the aggregate, have a material adverse effect on our business, financial condition, or results of operations.

REGULATION

European Union

There is currently no specific EU legislation governing gaming 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 2006/123/EC of the European Parliament and of the Council of December 12, 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 online gambling. The EU Commission is not proposing EU-wide legislation on online 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. On July 14, 2014, the EU Commission adopted the Recommendation on the principles for the protection of consumers, players and minors through the adoption of principles for online gambling services and for responsible commercial communications of those services, in order to safeguard health and to also minimize the eventual economic harm that may result from compulsive or excessive gambling. In preparing this Recommendation, the EU Commission has drawn from good practices in the Member States. The Member States were invited to notify the commission of any measures taken pursuant to this Recommendation by January 19, 2016 to allow the EU Commission to evaluate the implementation of this Recommendation. On November 27, 2015, the gambling regulatory authorities of EEA Member States signed a cooperation arrangement to enhance administrative cooperation with respect to certain challenges of online gambling.

On December 7, 2017 the European Commission issued a press release referencing the decision of the European Commission to close infringement procedures and complaints in the gambling sector against Member States, acknowledging the broader political legitimacy of the public interest objectives being pursued by Member States when regulating gambling services and that it is not a priority for the European Commission to use its infringement powers to promote an EU Single Market in the area of online gambling services. However, the European Commission will continue to support Member States in their efforts to modernize their national online gambling legal frameworks and to facilitate cooperation between national gambling regulators.

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 the national legislation applies where no regional legislation exists, but it does not regulate a specific gambling activity or when the gambling activity affects more than one Region. 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 Relating to the Gaming Industry and Our Business—The gaming industry is subject to extensive regulation (including applicable anti-corruption and economic sanctions laws) 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, which could result in litigation."*

Below is a summary of certain of the regulations and taxes that apply to the operation of slot machines, casinos, bingo halls, arcades and gaming halls, betting activities and online gaming 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. On anti-money laundering and terrorism prevention, Spain approved in 2014 a piece of regulation establishing specific measures related to payment of prizes and due diligence client identity measures in gambling activities. This regulation implements the Act on anti-money laundering and against financing of terrorism of 2010 and applies to both traditional and online gaming. On May 20, 2015, the European Parliament and the Council adopted Directive (EU) 2015/849 of May 20, 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC. Amongst others, this Directive applies to providers of gambling services. Member States were required to bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by June 26, 2017. According to this Directive, the use of gambling sector services to launder the proceeds of criminal activity is of concern. In order to mitigate the risks relating to gambling services, it establishes the obligation for providers of gambling services posing higher risks to apply customer due diligence measures for single transactions amounting to €2,000 or more. Member States should ensure that obliged entities apply the same threshold to the collection of winnings and wagering of stakes, including by the purchase and exchange of gambling chips, or both. Spain has transposed this Directive into national law with the approval of the Royal Decree Law 11/2018, of August 31, 2018 on the transposition of the Directives regarding the preservation of supplementary pension rights, prevention of money laundering and entry and residence of third-country nationals, and which modifies the Act 39/2015, of October 1, 2015 of the Common Administrative Procedure of the Public Administrations. The Royal Decree set forth the due diligence measures to be implemented by the providers of gambling services (concerning, among others, the identification of customers and, in particular, the due diligence measures that should be applied when customers perform transactions amounting to €2,000 or more in a single operation or in several operations that seem to be related).

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 several types of slot machines as described below, although certain Regions expressly exclude some of them:

- *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 (except for extra time if the player wins). 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 (i) a maximum wager of €0.20 (although Aragon and Castilla-La Mancha allow maximum bets up to €1 instead of €0.20 and most Regions allow "five times bet" slot machines which provide that in certain circumstances up to €1 may be wagered), (ii) a maximum prize of 500 times the price of the wager (except in La Rioja, where the maximum prize must be 400 times the price of the wager or 600 times if the game is played simultaneously) and (iii) a minimum payout of at least 70% (75% in Asturias) 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 and maximum prizes of up to 2,000 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."*

- *Amusement-with-prize in kind Slot Machines (known in the Spanish gaming industry as Type D slot machines).* These slot machines are amusement-with-prize in kind 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 and the skills of the player, eventually reward the player with a prize in kind. These type of slot machines are currently authorized in several Regions. Most of the regulations provide that, among other things, the maximum price of the game is €1 and the maximum value of the prize is generally 20 times the price of the wager. Moreover, the regulations generally provide that the prizes have to be visible and the player has to be able to identify them from the outside.

- *Bingo-type Slot Machines (which have different names depending on the Region (type B3, B4, D, E or Special)).* These slot machines are based on the Bingo game and can only be installed in gaming salons, bingo halls and casino halls with certain limitations. These slot machines in exchange for the price of a game, give the player a certain length of playing time and, eventually, reward the player with a prize in cash in accordance with the game program previously established. The maximum wager is €6. The minimum payout is required to be at least 80% (except in Baleares, where the minimum payout is required to be 75%). Generally, the maximum value of the prize is 1,000 times the price of the wager, although in some Regions, for example in Galicia, the maximum value of the prize can be lower, and in other Regions, for example Aragon, Castilla y Leon and Extremadura, the maximum value of the prize may be higher. If the bingo-type slot machines are connected with other bingo-type slot machines (in the gaming hall where they are located or in other gaming halls), the maximum value of the prizes may be much higher. There are also special-type bingo-type slot machines for arcades which allow bets from €1 up to €6 (depending on the Region) with the same value of the prizes.

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 or located at other gaming halls. When slot machines are interconnected, much higher prizes are allowed.

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 without prior approval by the competent authority subject to certain conditions. 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, €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.

On March 17, 2016, the Region of Galicia approved a new Regulation on casinos that also applies to existing authorized casinos. Amongst others, this Regulation creates the Regional Registry of Casinos for companies manufacturing and importing casino material or operating casinos in the Region of Galicia, and introduces the possibility for companies already operating a casino in the Region to install and operate one additional hall (as appendix) located outside the premises of the main casino, *provided* that the relevant requirements are fulfilled and that such additional hall is authorized by the competent authority. Among others requirements, the additional casino hall must be located in a different city but within the same province as the main casino. Additionally, according to the Regulation, the additional hall may have a maximum gaming area of 80% of the total gaming area of the main casino. In addition to the specific obligations for the installation and operation of the additional hall, it will be subject to the same obligations and provisions as the main casino.

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.

The Regions of Madrid and Catalonia have approved Acts allowing the installation and operation of, prior to the relevant tender procedure, new casinos in Integrated Development Centers *(Centros Integrados de Desarrollo)* and Touristic Entertainment Centers *(Centros Recreativos Turisticos)* respectively. These Acts also establish a beneficial gambling tax regime for casinos in both regions, with a flat tax rate of 10%, once a casino starts operations in these Centers. At present, no casinos have been authorized to operate in any Integrated Development Center in Madrid. In Catalonia, after the relevant tender procedure, an authorization to install and operate a gambling casino in the Vila-seca and Salou Touristic Entertainment Center (*Centro Recreativo Turístico de Vila-seca y Salou*) was granted by the Director General for Taxation and Gaming of the Government of Catalonia by means of the Resolution VEH/985/2018 of May 22, 2018, published at the Official Gazette of the Regional Government of Catalonia No. 7627 of May 25, 2018.

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 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, 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 €1.5 to €10. Generally, there is a required minimum payout from 63% to 75%, depending on the Region in which we operate, of the amount wagered by the bingo players on gaming cards in most Regions. In addition, the majority of the Regions 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 (other than betting activities) are not permitted in bingo halls but only within casinos. Although the exact number varies by Region, generally, the number of amusement-with-prize slot machines permitted in a bingo hall depends on the number of seats in or the surface of the bingo hall. Bingo companies are typically able to obtain the necessary authorizations to operate the stipulated number of amusement-with-prize slot machines.

In some Regions interconnected versions of bingo are operated. For example, in Catalonia, three times each evening, players in approximately 55 participating bingo halls play bingo against one another. Some Regions also allow 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.

Betting activities

All Regions in Spain have passed regulations on betting activities. Some Regions regulate bets in general, while others (such as Aragon) have a specific regulation on sports bets. Bets are generally defined as the activity in which the player risks an amount of money on an event previously determined that has an uncertain outcome and cannot be controlled by the player. In general, there are two types of bets, which are live bets (to be performed before the end of the event on which the bet is made) and bets on the result (to be performed before the start of the event). To operate as a bet organizer, regional regulations generally require the registration of the operator, and in some Regions an authorization from the regional administration. In addition, the operator is required to deposit a guarantee of an amount that varies depending on the Region.

Online 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 Loterias 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 November 14, 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 November 14, 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 Ministerial Orders governing various types of games (including, among others, horse betting, sports betting, poker, black jack, bingo, roulette, slot machines and crossed betting). On February 27, 2018, the Government carried out a public consultation about the suitability of modifying the Ministerial Orders regulating the different types of online games in Spain. Although the public consultation was closed in March 2018, the Ministerial Orders regulating the different types of games have not been modified to date. 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 on responsible 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. Likewise, the provision of gaming activities on a non-regular basis requires prior authorization.

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 (e.g. the existence of a third party interested in obtaining a license). 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.

Holders of general licenses are typically required to grant a guarantee of €1.0 million. Instead, holders of general licenses who are only entitled to organize and operate contests are required to grant a guarantee of €250,000. Holders of specific licenses shall grant an additional guarantee, besides the guarantee concerning the general license, the amount of which is set on a case-by-case basis by the Spanish Gaming Authority with the limits established for each type of game in its specific regulations.

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 conditions and limits regarding advertising of gaming activities will be developed through a specific regulation, which has not yet been approved and is currently being processed.

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 standardized 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 licenses 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 (including renewals where applicable); 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 license 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 licenses; (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 license; (vi) assignment or transfer of the license through merger, split, or share of a business branch without prior authorization; or (vii) holding a license obtained under false pretenses 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 eventually declared 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 authorization to engage in advertising and promotional activities related to such games.

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 most recent public tender for the granting of general licenses for the organization and operation of gaming activities subject to the Gaming Act was called by Resolution HFP/1227/2017, of December 5, 2017, which approves the tender rules and establishes a one year term for the submission of applications. Accordingly, applications could be submitted until December 17, 2018 at 1.00pm. According to the tender rules, the resolution will be notified to the applicant and published at the Spanish Gaming Authority's website within six months following the submission of the relevant application. The most recent public tender for the granting of specific licenses was called by Resolution of December 1, 2017. According to specification 8 of Resolution HFP/1227/2017, entities which do not hold a general license but have applied for one, can simultaneously apply for singular licenses for the specific games included in the scope of application of the requested general license. In this case, the granting of the specific license shall be subject to the granting of the general license.

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 gaming tax established under the Gaming Act. In general terms, the gaming tax applies fixed tax rates ranging from 10.0% to 22.0%, 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). The 2018 General Budget has standardized the tax rate for bet games at 20%. This new regulation was passed on July 3, 2018 and entered into force on July 5, 2018, but was effective as of July 1, 2018.

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 0.075% of the gross revenue of the relevant game and is paid on December 31 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. No changes have been introduced to this gaming duty of 0.075% for the years 2017, 2018 or 2019.

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.

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, Asturias, Illes Balears, Cantabria, La Rioja, Murcia, Valencia and Navarra).

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, betting agencies 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 (as described herein) led to changes in the ownership and operating structure of our electronic casinos business and increased gaming tax rates.

Electronic Casinos

Our principal subsidiary in Panama is Gaming & Services de Panama S.A. ("*Gaming & Services*"), in which we hold a 100% ownership interest. As of December 31, 2018, Gaming & Services has 29 licenses to operate electronic casinos in Panama. The majority of said licenses expire in 2038, with the exception of three licenses that expire in 2034, 2035 and 2037, respectively. Gaming & Services directly operates 26 of the 29 electronic casinos in Panama, and the other three electronic casinos are operated by other Cirsa subsidiaries. Ancon Entertainment, Inc. (50.1% owned by the Group) operates two electronic casinos in accordance with two operation agreements with Gaming & Services. Inversiones Interactivas, S.A. (70% owned by Orbis Development, S.A., a wholly owned subsidiary of Cirsa), operates one electronic casino in accordance with an operation agreement with Gaming & Services.

During 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 consequence of the foregoing and subsequent agreements around such time between Cirsa and the Gaming Control Board, we restructured our ownership interest and electronic casino license arrangements. In sum, we increased our ownership interest in Gaming & Services from 70.9% to 100%, Gaming & Services obtained the right to hold licenses for 12 new electronic casinos, in addition to the 14 licenses granted in 1998, and we paid a total of $18 million over a four-year period (ending in 2012) to the Panamanian government in respect of "Key Money" payments for electronic casino licenses and additional payments.

In 2013 we renewed our electronic casino licenses in Panama, extending the expiration date of the licenses to 2038 for 26 of the licenses for a total cost of $13.0 million (which amount has been fully paid).

Traditional Casinos

We have a 50% interest in *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 the group that owns Hotel Decapolis and shopping mall *Multicentro,* entered into a joint venture and formed Majestic 507 Corporation, S.A. (formerly, Multicasino S.A.) for purposes of operating a casino in *Multicentro*. Hotel Decapolis 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

According to the first paragraph of Article 11 of Law 28 of 2012, which modified Article 61 of Law 2 of 1998, the tax rate for type A slot machines in electronic casinos and traditional casinos is 18% on the gross monthly income and the tax rate for the gaming tables in traditional casinos is 12% on the gross monthly income. However, pursuant to a judgment of the Supreme Court of Panama of February 9, 2017, this first paragraph of Article 11 of Law 28 of 2012 was declared unconstitutional. The judgment declaring the unconstitutionality of Article 11 of Law 28 of 2012 was published in the Official Gazette No. 28515-A of April 30, 2018. The declaration of unconstitutionality will be effective on April 30, 2019.

On May 4, 2015, the Panamanian government passed "*Ley 27 de 2015*" which established a 5.5% Selective Excise Tax on amounts "cashed out" in gaming activities (which became effective on June 23, 2015). This tax replaced the 7% Selective Excise Tax applicable to gaming prizes higher than $300. Before the adoption of the 5.5% Selective Excise Tax, gaming prizes bellow $300 were exempt from the excise tax.

Republic of 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 1068 of 2015 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 1068 of 2015, that all existing enforceable contracts and agreements entered into by ETESA (including the concession agreements that we entered into with ETESA) 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 possession of the equipment and components used for the operation of the games; (ii) obtain zoning certifications that the land can be used for gaming operations from the municipal authority (major) where the casinos or slot machines are located; (iii) obtain an authorization to operate casinos or slot machines from COLJUEGOS through concession agreements; and (iv) once the competent authority grants the necessary certifications as required 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. Winner Group currently has a concession agreement that is valid until November 2021.

As of January 1, 2012, the National Taxes and CustomsAuhority, 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 currently, COLJUEGOS has assumed this function since it entered into operation. Gaming taxes are levied for FY 2018 at a fixed rate per month in the range of COP $234,000 and COP $312,000, the equivalent of approximately $73 to $98 (using an exchange rate of COP $3.174 per U.S. dollar) per slot machine (depending on the value of the bet) and COP $3,112,000 per casino table (e.g. black jack, poker, baccarat, craps and roulette) the equivalent of approximately $1,012 (using an exchange rate of COP $3.174 per U.S. dollar). Administrative duties are levied at 1% of such payable gaming taxes. Since November 2016, it is mandatory to connect all slot machines to the gaming authority's central online system for purposes of monitoring gross revenues, gaming taxes will be levied on each slot machine at the higher of the aforesaid fixed rates and 12% of the gross revenues minus prize payouts. The new regime also establishes penalties for illegal gaming activities.

A corporate income tax of 25%, plus an additional income tax "for equity" (the "*CREE Tax*") at a rate of 9% was levied on all corporate profits until 2016. Law 1819 of 2016 eliminates the CREE Tax and amends the rate of the income tax for 2017 to 34% with a surcharge of 6%, for 2018 to 33% with a surcharge of 4% and for 2019 and subsequent years to 33% without any surcharge. Law 1943 of 2018 establishes a progressive decrease of this tax rate from 33% in 2019 to 32% in 2020, 31% in 2021 and 30% in 2022 and subsequent years.

Mexico

The Mexican government is divided into three levels of government: federal, state and municipal. The gaming industry in Mexico is regulated at a federal level by the Federal Law on Gaming and Lotteries (enacted in 1947) and the Federal Regulations on Gaming and Lotteries (enacted in 2004). Pursuant to the provisions of such law and regulations, all forms of gambling are prohibited unless expressly permitted; only lotteries and diverse modalities of the permitted games are allowed to exist and are legally regulated.

The Mexican gaming legal framework was significantly strengthened as a result of the enactment of the Federal Regulations on Gaming and Lotteries (2004), by (i) expressly ratifying existing permits, including the terms pursuant to which they should be governed, (ii) outlining the process to obtain new permits, (iii) defining where gaming facilities may be located, (iv) recognizing the role of operators as providers of gaming services to gaming permit holders, (v) authorizing limited forms of advertising and (vi) recognizing electronic modalities of permitted bingo games that are likewise allowed under existing permits, among others.

The federal authority responsible for issuing gaming permits, regulating gaming activities, inspecting gaming facilities and imposing sanctions in connection therewith is the Ministry of Interior (*Secretaría de Gobernación or "SEGOB"*).

A permit issued by the Ministry of Interior is required for the installation and operation of gaming facilities. The issuance of permits is subject to the fulfillment of certain requirements, among which, for example, is obtaining a favorable opinion of the state, municipal or delegation authority of the place in which the premises subject of the permit will be located.

Permit holders must comply with certain obligations, including but not limited to, the following: (i) obtain an authorization to re-locate the gaming premises, (ii) deliver quarterly and annual financial statements as well as insurance policies covering permitted activities, within established deadlines, (iii) provide monthly reports on income and payment of government fees, (iv) obtain a bond to guarantee payment of unpaid prizes and (v) notify the Ministry of Interior of any transfer of shares or any change in the shareholders' structure. Failure to comply with such obligations or the ones specifically set forth in gaming permits may result in the imposition of fines, the revocation of gaming permits and/or closure of gaming facilities.

Permits for the installation and operation of sport book halls and gaming halls that include slot machines, table games, bingo and sports betting activities will be issued with a maximum validity of 25 years and may be extended for up to 15 additional years, *provided* that the permit holder complies with the corresponding permit's terms and conditions and with its obligations under the Federal Law on Gaming and Lotteries and its Regulations.

Gaming premises are also subject to compliance with administrative law obligations in accordance with applicable state and municipal laws. Each of the 32 states of Mexico, has their own laws and regulations concerning matters that fall under their jurisdiction and therefore administrative law requirements may differ from place to place.

As a general rule, a land use or zoning certificate, opinion, license or authorization issued by the municipal authority, an operational license issued by the municipal authority and a civil protection authorization issued by the local civil protection authority are required prior to and for the operation of gaming premises.

Italy

We primarily operate in the Italian slot machines and video lottery terminal (*VLT*) markets. We also wholly own one bingo hall and have minority interests in 11 bingo halls in Italy.

The Italian gaming regulatory authority is the *Agenzia delle Dogane e dei Monopoli* which, pursuant to Law Decree No. 95 of July 6, 2012 has replaced the Amministrazione Autonoma dei Monopoli di Stato as the gaming competent authority starting from December 1, 2012 (for ease of reference both defined as the "*ADM*").

ADM Decree No. 31857 of September 9, 2011 requires VLT and slot machine 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 are 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 ADM. The decree also establishes certain rules governing any violations of law by the applicant.

2015 Italian Budget Law and 2016 Italian Stability Law

The regulation and taxation of the Italian gaming industry has been impacted by the adoption of Law No. 190 of December 20, 2014 (the "*2015 Italian Budget Law*"), which became effective from January 1, 2015, and Law No. 208 of 2015 (the "*2016 Italian Stability Law*"), which became effective from January 1, 2016. The reforms contemplated by a prior law adopted in 2014, Article 14 of Law No. 23 of March 11, 2014 (the "*Italian 2014 Tax Delegation Law*"), which instructed the Italian Government to implement a comprehensive reform of the regulations applicable to the gaming industry, were never proposed or adopted. As described herein, a number of the provisions adopted in the 2015 Italian Budget Law were amended or rescinded by the 2016 Italian Stability Law.

The 2015 Italian Budget Law introduced a series of changes to the fees and commissions regime applicable to the operation of VLTs and amusement-with-prize slot machines.

Concession Fees and Commissions

One of the most significant changes imposed by the 2015 Italian Budget Law was an aggregate reduction of €500 million per year, commencing on January 1, 2015, in the fees due to concessionaires and other operators, to be paid by concessionaires and operators proportionately to the number of VLTs and AWP machines they operate as of December 31 of any given year, starting from December 31, 2014. This provision amounted to a €500 million annual tax levy on AWP slot and VLT concessionaires and operators. The number of VLTs and AWP machines of each concessionaire as of December 31, 2014 was determined by the ADM on January 15, 2015. The ADM was also required to determine the methods of payment by the concessionaires. As described herein, the 2016 Italian Stability Law modified this provision.

The 2015 Italian Budget Law also required that operators shall return to the concessionaires the entire amount (coin in) of the VLTs or AWP slot machines less prizes but permits concessionaires and operators to renegotiate their contracts in order to determine how to share their respective fees. The concessionaires are required to return to the operators their portion of the compensation fee until the contracts have been renegotiated and executed.

As part of the implementation of the €500 million tax levy of the 2015 Italian Budget Law, on January 15, 2015, the ADM determined that as of December 31, 2014, Cirsa Italia represented 3.95% of the Italian market of VLTs and AWP slot machines in terms of numbers of machines operated and assessed a tax in an amount to be paid by Cirsa Italia for the year ended December 31, 2015 of approximately €19.8 million. Cirsa Italia was required to pay 40% of the ADM Determination amount (€7.9 million) on April 30, 2015 and to make a further payment of €10.0 million on October 31, 2015. In order to mitigate the effects of the ADM Determination, Cirsa Italia amended or renegotiated its contractual agreements with certain of its AWP and VLT site operators and gaming machine suppliers in order to share with them tax assessed on our operators. In the aggregate, Cirsa Italia has paid €18.2 million of the €19.8 million total ADM Determination (which amount includes contributions from site operators and partners).

Although Cirsa Italia has paid €18.2 million of the ADM Determination, Cirsa Italia (along with a number of other gaming concessionaires) still challenged the ADM Determination. In particular, Cirsa Italia has filed a challenge of the ADM Determination for the full €19.8 million before the Regional Administrative Court of Lazio, asking the Court to stay the effects of the ADM Determination until a decision of the case on the merits was made. The hearing to discuss the interim suspension of the ADM Determination was held on April 1, 2015. On December 16, 2015, following the July 1, 2015 hearing and subsequent petitions in October 2015, the Regional Administrative Court of Lazio issued a new order, requesting the Italian Constitutional Court to confirm the constitutionality of these provisions of the 2015 Italian Budget Law. On May 8, 2018, the Italian Constitutional Court heard the claims of Cirsa Italia (along with a number of other concessionaires) that the provision of the 2015 Italian Budget Law infringes the principles of legitimate expectations and of equal treatment for all the gaming products offered in the Italian market. In July 2018, the Italian Constitutional Court delivered its judgment stating that the provisions of the 2015 Italian Budget Law do not infringe the Italian Constitution because a subsequent law has limited its framework and determined that it was in force only for the year 2015. Accordingly, the Italian Constitutional Court held that the amount of the ADM Determination must be paid to the Italian government. However, the Italian Constitutional Court also stated that each party (concessionaires, site operators and partners) is entitled to pay only its part of the amount and there should be no joint and several liability. The Italian Constitutional Court has sent the case back to the Regional Administrative Court of Lazio, which will issue a new judgment upon the ADM determination. The hearing is expected to be held on May 22, 2019, when the Regional Administrative Court of Lazio is expected to decide, among other things, whether concessionaires such as Cirsa Italia have joint and several liability with partner operators. If the Regional Administrative Court of Lazio decides that concessionaires have joint and several liability with partner operators, then Cirsa Italia will be required to pay the €1.6 million of assessed obligations that remain outstanding for its partner operators under the 2015 Italian Budget Law, with applicable interest and service charges. However, Cirsa Italia will have the right to appeal this decision. If the Regional Administrative Court of Lazio decides that concessionaires do not have joint and several liability and, accordingly, that concessionaires are not responsible for the payment of the amounts owed by partner operators, as the Italian Constitutional Court has stated, then the concessionaires will not be obliged to pay on behalf of their partner operators, and Cirsa Italia will not be liable for the €1.6 million amount.

Article 1, paragraph 921, of the 2016 Italian Stability Law clarified that concessionaires and other AWP slot and VLT operators should contribute proportionally to the payment of the ADM assessed obligations on the basis of the relevant contractual agreements. The 2016 Italian Stability Law does not provide for any joint liability of gaming concessionaires (such as Cirsa Italia) for the payment by site operators of their shares of said tax. The 2016 Italian Stability Law also repealed the provisions of the 2015 Italian Budget Law that had introduced this new tax for the concessionaires for subsequent years and therefore this obligation is no longer in effect.

The 2016 Italian Stability Law, also established that the number of AWP slots installed in the Italian market should decrease. For that purpose, Law Decree No. 50 dated April 24, 2017, and Decree of the Ministry of Economy dated July 25, 2017 reduced the number of authorizations for AWP slots to 345,000 AWP slots by December 31, 2017 and to 265,000 by April 30, 2018. In order to achieve this goal, each concessionaire had to reduce the number of authorizations it held as of December 31, 2016 by at least 15% by December 31, 2017 and by at least 34.9% by April 30, 2018.

Pursuant to Article 1, paragraph 1098 of the 2019 Italian Stability Law, which amended art. 110, paragraph 6, let. a) of the Royal Decree 773/1931, without prejudice to the reduction of the number of AWP slot authorizations ("*nulla osta*"), after December 31, 2019 the release of authorizations for non-remote AWP slots (traditional coin or electric operated slot machines) will be prohibited and non-remote AWP slots must be disposed within December 31, 2020. Starting from January 1, 2017 only authorizations ("*nulla osta*") for remote AWP slots (those slots with an online link which allows remote monitoring by the ADM) can be granted.

By December 31, 2017, Cirsa Italia had reduced the number of authorizations relating to AWPs it held as of December 31, 2016 by 15.2%. Cirsa Italia has further reduced this number of authorizations by 19.7% as of December 31, 2018, achieving the mandated reduction level of 34.9%, which was required to be achieved by mid-June 2018.

According to the relevant provisions of law, if the total number of authorizations held as of May 1, 2018 is lower than 265,000, concessionaires will be entitled to apply for further authorizations until reaching a total number of authorizations equal to 265,000.

Notwithstanding this reduction in AWP authorizations, Cirsa Italia plans to maintain almost the same presence on the Italian market by spreading the remaining AWPs throughout the territory thus minimizing the impact of the reduction in AWPs on the business.

Increases in Gaming Turnover (PREU) Tax and other provisions

The 2016 Italian Stability Law increased the gaming turnover ("*PREU*") tax for AWP slot machines to 17.5% (from 13.0%) as of January 1, 2016. The tax further increased to 19.0% with effect from April 24, 2017 by Law decree No. 50 dated April 24, 2017.

The 2016 Italian Stability Law also increased the PREU tax for VLTs to 5.5% (from 5.0%) as of January 1, 2016. The tax further increased to 6.0% with effect from April 24, 2017 by Law decree No. 50 dated April 24, 2017.

The 2016 Italian Stability Law further provided that the percentage of wagers that must be paid to players (minimum payout ratio) has been lowered to not less than 70% of wagers (a decrease from the 75% of wagers that was applicable in 2015).

Law Decree July 12, 2018, No. 87 ("*Decreto Dignità*") sets higher percentages of the PREU tax, for AWP slot machines and VLTs respectively, as follows:

- 19.25% and 6.25% of wagers, from September 1, 2018 to April 30, 2019;
- 19.6% and 6.65% of wagers, from May 1, 2019;
- 19.68% and 6.68% of wagers, from January 1, 2020;
- 19.75% and 6.75% of wagers, from January 1, 2021; and
- 19.6% and 6.6% of wagers, from January 1, 2023.

In addition to the above, Law December 30, 2018, n. 145 ("*2019 Italian Budget Law*"), as amended by Law Decree January 28, 2019, No. 4 (converted into law March 28, 2019, No. 26), provides for a further increase of the PREU tax, of 2% for AWPs and 1.25% for VLTs, from January 1, 2019. Pay-out has been reduced to an amount not lower than 68% for AWPs and 84% for VLTs. Pursuant to Article 27 of Law Decree 4/2019 (converted into Law 26/2019), the issuance of paper-based licenses for AWPs is subject to the payment of €100 one-off charge, raised to €200 euro for 2019 only.

According to the same Law Decree 4/2019, the new remote-AWPs will provide access to game contents only once a social security card is inserted, in order to prevent gambling by minors.

Illegal gaming machines are subject to higher sanctions, including administrative fines from €5,000 to €50,000 for each illegal machine and the closure of the business which hosted the illegal gaming machines from 30 to 60 days. Illegal gambling activities are subject to jail terms from three to six years and a fine from €20,000 to €50,000 **.** The ADM, together with the tax police, shall implement an extraordinary plan to control and fight illegal gambling.

Modernization of Gaming Technology

The 2016 Italian Stability Law directed the Italian Treasury to issue new regulations aimed at starting a process of technological improvement and modernization of the existing slot machines which is to be completed by December 31, 2019. The regulations shall provide, among other things, that commencing January 1, 2017, only those slot machines that allow remote monitoring *(gioco pubblico da ambiente remoto)* will be authorized. This regulation, once it is adopted, is expected to result in a reduction by at least 30% of the number of slot machines in operation as compared to July 31, 2015.

On April 4, 2017, the ADM published Decree 37100/RU ("*Technical Rules Decree*") that sets forth new technical rules for VLTs that are intended to require a major upgrade in VLT platforms and technology. These new technical rules provide for considerable new obligations aimed at enhancing the traceability of players in order to avoid fraud, and also provide for a new certification process that will be performed by new ADM-accredited testing centers. Due to the significant number of changes required to be implemented under the new rules, the ADM has granted a transitional period until April 1, 2019 in order to comply with the new requirements provided by such ADM decree.

On June 27, 2018, the ADM issued Decree 108019/RU, which amended the guidelines for the compliance testing of AWPs and VLTs (the "*Guidelines*"), approved by the ADM with Decree 146294/RU, dated December 28, 2017. In particular, the Guidelines set forth the technical requirements for the compliance testing of the entire gaming system and of each of its component (such as the central system, hall system and video lottery terminal).

Pursuant to Article 1, paragraphs 569 and 571 of the 2019 Italian Budget Law, in order to ensure the effectiveness of local regulations on limited opening hours, since July 1, 2019, the ADM shall provide local authorities with an official timetable concerning operating periods of gaming machines (AWPs and VLTs).

On February 22, 2019, the ADM published Decree 31516/RU, implementing Article 1, paragraph 569, letter a) of Law December 30, 2018, n. 145 “Operating procedures for the availability to the local authorities of the operating times of the VLTs”. Pursuant to this legislation, the ADM, together with Sogei, shall supply the municipalities with an application called “SMART” governing the relevant operating times of the existing VLTs.

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.

Pursuant to Article 86, paragraph 3 of the Royal Decree No. 773 of June 18, 1931, 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 after the enactment of Italian Budget Law No. 289 of December 27, 2002, pursuant to which 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. ADM is responsible for regulation and oversight of the interlinked slot machine system.

The ADM has awarded a series of concessions, each for the term of nine years, to slot machine companies to act as network system operators for slot machines in Italy.

In August 2011, the ADM 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, Cirsa Italia was 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 Cirsa Italia’s 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 Cirsa Italia (and the other operators) did not achieve such targets by such date, Cirsa Italia has since achieved such targets and we believe Cirsa Italia is 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 turnover tax levied on slot machine operations. 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.

During 2007, the ADM 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 ADM on amounts wagered increased in 2007 from 0.3% to 0.8%. The PREU tax on slot machines has subsequently increased. The 2016 Italian Stability Law has increased the PREU tax from 13.0% to 17.5%.

Law Decree No. 87/2018 has set higher percentages of the PREU tax, as follows:

- 19.25% of wagers, from September 1, 2018 to April 30, 2019;
- 19.6% of wagers, from May 1, 2019;
- 19.68% of wagers, from January 1, 2020;
- 19.75% of wagers, from January 1, 2021; and
- 19.6% of wagers, from January 1, 2023.

In addition to the above, 2019 Italian Budget Law, as amended by Law Decree January 28, 2019, No.4, provides for a further increase of the PREU tax of 2% from January 1, 2019.

Under the current regulatory framework, not less than 68% of wagers must be paid to players (a decrease from 70% of wagers that was applicable in 2016).

Under Article 1, par. 81, letter (g), of the Italian Budget Law No. 220 December 13, 2010, the venue requirements for slot machines and VLTs have been regulated by ADM 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

VLTs, which are lottery machines connected with a central system that generates a winning series of numbers, are regulated by Law No. 77, dated June 24, 2009. Players who play on VLTs have a chance of winning of almost 85% (Article 12, par. 1, letter (l)).

Law Decree No. 78 dated July 1, 2009 (converted into Law No. 102 dated August 3, 2009) mandated the organization of a tender procedure for VLT network operators, as required by the Article 14-bis, par. 4, of the Presidential Decree No. 640 of October 26, 1972. Law No. 102/2009 set out the rules for the concession award procedure, including that (i) ADM had to organize the award procedure for the concessions of the VLT network, (ii) the most economically efficient concession contractor had to be chosen, (iii) the duration of the concessions had to initially be nine years and could be renewed once (Article 21, paragraph 4, of Law Decree No. 78 dated July 1, 2009) and (iv) the 10 existing network system operators of slot machines in Italy already authorized to operate VLTs could request an extension of their concessions to include the VLT network. Certain technical and economic requirements had to be met in order for the ten existing network system operators to be authorized to install VLTs and to act as network system operators for VLTs.

In 2013, following a series of procedural steps and after demonstrating compliance with technical and economic requirements, Cirsa Italia was granted a permanent concession to act as a network system operator for VLTs. The concession expires in 2022.

ADM adopted the Decree No. 43593 of January 22, 2010 and the Decree No. 37100/RU of April 4, 2017 which require that certain technical and operational requirements are complied with when operating VLTs. Under these Decrees, 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 ADM 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 ADM decree provided 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 ADM 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.

According to Articles 9 and 10 of the Decree No. 37100/RU, the maximum cost of an individual game is €10.00 and the minimum cost is €0.10. 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 No. 37100/RU also includes provisions concerning:

- technical and operational requirements of the VLT game system (Article 2);

- information to be registered by the network (Article 3);

- monitoring tools for the supervision of the network (Article 4);

- cross-ticketing and ticket (Articles 5, 8 and 13);

- requirements for VLT machines (Article 7);

- general specifications of the games (Article 11);

- technical auditing of game system compliance (Article 12) also ruled by the Decree No. 87765/RU dated August 18, 2017 and the relevant attachment which contains recommendations concerning operational requirements to be met for an appropriate assessment of the compliance of VLTs and the related gaming systems with the requirements set forth by ADM Decree dated January 22, 2010;

- protection of the player (Article 14).

Venue requirements for VLTs (and slot machines) are regulated by ADM Decree No. 30011 of July 27, 2011 and by the specific provisions set forth in Article 6 of ADM Decree No. 37100/RU. Decree No. 30011 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 from time to time 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 a material adverse impact on the business or results of operations of Cirsa Italia.

Effective as of April 24, 2017, the PREU tax levied on the amount wagered on VLTs is 6.0% (an increase from 5.5%), plus an additional 12.0% on the quota of wins exceeding €500. In addition, as is the case for slot machines, Cirsa Italia is required to pay a separate tax to the ADM of 0.8% of the amounts wagered (ADM Decree of July 2007, in furtherance of Article 1, paragraph 530, letter (b)), of the Law No. 266 of December 23, 2005, as subsequently amended.

Law Decree No. 87/2018 has set higher percentages of the PREU tax, as follows:

- 6.25% of wagers, from September 1, 2018 to April 30, 2019;
- 6.65% of wagers, from May 1, 2019;
- 6.68% of wagers, from January 1, 2020;
- 6.75% of wagers, from January 1, 2021; and
- 6.6% of wagers, from January 1, 2023.

In addition to the above, 2019 Italian Budget Law, as amended by Law Decree January 28, 2019, No. 4, provides for a further increase of the PREU tax of 1.25%, from January 1, 2019.

Under the current regulatory framework, pay-out has been reduced to an amount not lower than 84%.

Bingo Halls

We also wholly own one bingo hall and have minority interests in 11 bingo halls in Italy. The operation of bingo halls has been permitted 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 ADM, however, since November 1, 2009, under a pilot scheme implemented by the ADM, such percentages are reduced respectively to 11%—payable to Italian tax authorities—and 1%—payable to the ADM. Regulations require that 70% of the face value of the bingo be dedicated to prize payments.

Ministerial Decree of November 21, 2000, implementing Article 16 of Law No. 133 of May 13, 1999, sets forth the model rules (the "Convention") for bingo hall operators. By operating the bingo hall concessions, which the Ministry of Finance grants for six year periods, the concessionaires undertake (i) to comply with the law and the administrative authorizations concerning the use of the hall (failure to comply results in the revocation of the concession), (ii) to ensure appropriate light, ventilation, hygiene and decency in bingo halls, (iii) to test the bingo hall within 150 days from the notification of the award of the concession, (iv) to start the business within 15 days from testing the bingo hall and, before starting the business, to file a declaration of commencement of activities with the competent authorities, (v) to comply with the provisions of law, the Convention and Royal Decree No. 773/1931 ("*Consolidated text of the laws on public security*"), (vi) to keep the state of the hall and the equipment as required by ADM, which is responsible for the control and inspection of bingo halls in Italy, (vii) to keep the business open at least 11 months per year, six days per week and eight hours per day, (viii) to pay the personnel as required by the relevant collective agreements and to comply with the social security provisions, and (ix) to allow the ADM to conduct inspections of the hall. The transfer of a concession to operate a bingo hall is only permitted upon prior consent of ADM.

Bingo can only be organized in a hall that is specifically authorized for such purposes. The concessionaire is entitled to payment of a remuneration equal to the income (taxes and fees deducted). All the expenses in relation to the business, the hall and the relevant equipment shall be borne by the concessionaires.

Under certain circumstances, ADM can order the suspension of the concession, with immediate effect and for a maximum period of three months, in order to protect the public interest. The concession may be lost or revoked if (i) the concessionaire no longer complies with requirements set forth by applicable law, (ii) the business is not commenced within 15 days from the inspection of the bingo hall, (iii) the business is interrupted for reasons other than *force majeure*, (iv) material breaches of law occur, (v) precautionary measures or indictment are levied on the concessionaire or (vi) the business is transferred without obtaining the prior consent of ADM.

Pursuant to Article 1, paragraph 79 of Law No. 220 of December 13, 2010, the Convention introduced (i) penalties (ranging from €100 up to a maximum of €10.000, depending on the nature of the violation) for breach of the Convention and (ii) a requirement that the concessionaires had to take measures to protect players and to prevent pathological gambling.

The 2018 Italian Budget Law provides for the renewal of all of Italy's 210 bingo concessions by means of a public tender process by September 30, 2018. The results of the public tender procedure will impact the nature and number of slot machines that bingo concessionaires will be able to operate at their bingo halls under their concessions. Until the concessions are renewed in accordance with the 2018 Italian Budget Law, the bingo halls are being operated under a "*prorogation regime*" (meaning that each concession is prorogated until the issuance of the new concession under the tender process). Under the *prorogatio regime*, the concessionaires which already hold a concession and plan to participate in the tender process to renew such concession must pay a monthly fee amounting to €7,500 (for each month or fraction of month lasting more than 15 days) or to €3,500 (for each fraction of a month lasting less than 15 days) (Article 1, paragraph 636, letter (c)), of the Law No. 147 of December 27, 2013). We expect to take part in the aforementioned new tender process and, to this end, we are currently paying the monthly fees according to the relevant provisions of law.

Pursuant to Article 1, paragraph 1097 of 2019 Italian Budget Law, bingo concessions are extended until the earlier of the award of new concessions and December 31, 2019.

According to Article 1, paragraph 636, of the Law No. 147 of December 27, 2013, the rules for the public tender process to award the bingo hall concessions include, but are not limited to, the following: (i) the concessionaires shall pay a fee amounting to at least €350,000 for the award of each concession, (ii) the concession shall be for a non-renewable period of nine years, (iii) subjects already involved in gaming and gambling activities businesses within the European Economic Area are allowed to participate in the tender process and (iv) the concessionaires shall provide insurance or a bank guarantee for an amount equal to €300,000 effective for the whole duration of the concession.

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.

Additional limitations and requirements to gaming advertisement have been introduced by the 2016 Italian Stability Law. For example, the 2016 Italian Stability Law provides that gaming advertisements shall not contain messages which may encourage uncontrolled gaming or suggest that gaming may help resolve personal or professional problems. The 2016 Italian Stability Law also prohibits TV or radio advertising of prize games during specified hours, with some limited exceptions.

Pursuant to Article 9 of Law Decree July 12, 2018 ("*Decreto Dignità*"), any forms of advertising, even indirect, in relation to gaming, betting and gambling, are prohibited. Advertising contracts in force on July 14, 2018, are subject to previous legislation until their expiry date, but their duration cannot last longer than one year from July 14, 2018. According to the same provisions, from January 1, 2019, sponsorships are also prohibited. Any breach of the mentioned legislation is subject to an administrative fine equal to 20% of the value of the sponsorship or advertising contract and, in any case, no lower than €50,000 euro per violation.

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.

ADM is working on guidelines to prevent money laundering specifically concerning concession operators.

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.

Laws Affecting Privacy and Data Protection

As of May 25, 2018, we are subject to the data protection provisions established by the European General Data Protection Regulation No. 679, 2016.

Dominican Republic

The gaming industry in the Dominican Republic is regulated by the *Ministerio de Hacienda de la República Dominicana* (Ministry of Finance of the Dominican Republic) pursuant to national legislation concerning the regulation of games of chance adopted in 1964. The Ministry of 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. Four of our subsidiaries in the Dominican Republic have entered into operating agreements with local companies pursuant to which we manage six casinos.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The Company was incorporated on November 15, 2017 for the purpose of facilitating the Original Acquisition. Prior to the completion of the Original Acquisition on July 3, 2018, it had no material assets or liabilities, and had not engaged in any material activities, other than those in preparation for the Original Acquisition and the issuance of the Existing Notes. The Company is a holding company that owns the entire share capital of the Issuer and, following the completion of the Original Acquisition, it owns the entire share capital of Cirsa Group.

We started consolidating the results of our group companies at the level of the Company for our consolidated financial statements prepared as of and for the year ended December 31, 2018. For periods prior to that, we consolidated the results of our group companies at the level of Cirsa. The Company's consolidated financial statements as of and for the year ended December 31, 2018 have been prepared from Cirsa's consolidated financial statements for the six months ended June 30, 2018 and thereafter includes the effects of the acquisition by the Company of the Cirsa Group. Accordingly, in this annual report , we include the Company's consolidated financial statements as of and for the year ended December 31, 2018 and Cirsa's consolidated financial statements as of and for the year ended December 31, 2017, in each case, prepared in accordance with IFRS. The Company's special purpose consolidated financial statements as of and for the year ended December 31, 2018 have been audited by Ernst & Young S.L. and their auditor's report thereon is included elsewhere on our investor relations website. *We present our financial statements in euro.*

In connection with the Original Acquisition, the Argentina Business was transferred from the Cirsa Group pursuant to the Argentina Business Transfer. Accordingly, the Company's consolidated financial statements as of and for the year ended December 31, 2018 treat the results of the Argentina Business as a discontinued operation. In our consolidated financial statements as of and for the year ended December 31, 2018, we have restated the comparative financial information as of and for the year ended December 31, 2017 to present it on a consistent basis with our financial information as of and for the year ended December 31, 2018. The purpose of this restatement was to (i) give effect to the treatment of the Argentina Business as a discontinued operation and (ii) consolidate our results at the level of the Company rather than at the level of Cirsa as of and for the year ended December 31, 2017. In such presentation, certain line items in the profit and loss account, balance sheet and statement of cash flows were reclassified in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations."

In the discussion and analysis below, where we discuss the results of operations, cash flows and working capital requirements for the year ended December 31, 2018 compared to the year ended December 31, 2017, we have derived the financial information for these periods from the Company's consolidated financial statements as of and for the year ended December 31, 2018 (which treats the Argentina Business as a discontinued operation).

You should read the following discussion together with the sections entitled "Forward-Looking Statements," "Selected Financial and Other Information," "Risk Factors" and "Presentation of Financial Information."

Overview

We believe we are one of the leading gaming companies in Spain, Italy, as well as in several countries in Latin America (with a focus on Panama, Colombia, Mexico, Costa Rica and Peru), engaged in the operation of slot machines, casinos and bingo halls. We also manufacture slot machines for the Spanish market. As of December 31, 2018, we operated 76,988 gaming machines, 148 casinos, 70 bingo halls, 623 gaming tables, 2,580 betting locations and 190 arcades.

The Original Acquisition

On April 27, 2018, the Company entered into the Original Acquisition Agreement with Manuel Lao Hernández and Nortia pursuant to which the Company agreed to acquire 100% of the Cirsa Group for €2.2 billion. The purchase price was adjusted on October 30, 2018 to take account of actual net debt, working capital and intercompany receivables between Nortia and the Cirsa Group as at completion of the Original Acquisition. Prior to the completion of the Original Acquisition, the Original Sellers transferred all real estate wholly owned by the Cirsa Group to Nortia (or to a third party). The transfer of real estate partly owned by the Cirsa Group to Nortia (or a third party) is due to be completed by July 2019. In addition, for a period of one year from the date of completion of the Original Acquisition, the Original Sellers agreed to endeavor to arrange the sale of any remaining real estate assets partly owned by the Cirsa Group (the "*Partly Owned Real Estate Assets*") on the basis that the Original Sellers would be paid the Cirsa Group's share of any consideration for such sale. If any of these Partly Owned Real Estate Assets continue to be owned by the Group after the date falling one year from the date of completion of the Original Acquisition (the "*Remaining Real Estate Assets*"), the Company will pay an additional payment to the Original Sellers in an amount equal to its share of the fair market value of such Remaining Real Estate Assets. The Original

Acquisition Agreement also provides that Nortia shall enter into lease agreements with the Company (or the Group) with respect to certain of the real estate transferred by the Cirsa Group to Nortia (or Nortia will use its best efforts to cause any third party transferee of real estate to enter into lease agreements with the Company (or the Group)).

Argentina Business Transfer

The Argentina Business was transferred from the Cirsa Group pursuant to the Argentina Business Transfer on or about July 3, 2018. As of this date, the Argentina Business mainly consisted of two riverboat casinos in the city of Buenos Aires with 120 gaming tables and 1,596 slot machines, one casino located in Rosario with 50 gaming tables and 3,285 slot machines, and four casinos in the Province of Mendoza, which operated 1,148 casino-style slot machines.

The historical consolidated financial statements of the Company for the year ended December 31, 2018 (and the comparative period for the year ended December 31, 2017) treat the results of operations of the Argentina Business as a discontinued operation. In such presentation, certain line items in the profit and loss account and balance sheet were reclassified in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations." The historical financial information of the Group presented in the discussion for the year ended December 31, 2018 under the caption "—*Historical Results of Operations—Year ended December 31, 2018 compared to the year ended December 31, 2017*" treat the results of the Argentina Business as a discontinued operation.

Segment Reporting

We are presently organized into four business divisions: Slots, Casinos, Bingo and B2B. 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 net operating revenues, EBIT, EBITDA and profit/(loss) after tax for each of our business divisions.

Our secondary basis of segment reporting is geographic, and we report operating revenues and total assets for Spain (which includes our Moroccan operations), Latin America and Italy. See note 3 to our special purpose consolidated financial statements as of and for the year ended December 31, 2018.

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 the Group and our business divisions and our overall liquidity than operating profit or net result.

Results of Operations Attributable to Joint Arrangements

Based on the application of IFRS 11 and in accordance with the equity method of accounting, financial results of arrangements where the Group does not have a right to control the significant activities of a company are not consolidated in the financial statements regardless of equity ownership.

The following table sets forth the EBITDA attributable to equity method joint arrangements (after giving effect to the Argentina Business Transfer (not including any intercompany eliminations.)). This table does not account for EBITDA attributable to minority interests that exist within the Group.

	Year ended December 31	
(in € millions)	**2017**	**2018**
EBITDA	350.8	328.3(1)
EBITDA of Equity Method Joint Arrangements:		
Sportium	7.0	9.0
AOG	2.3	1.5
Montecarlo Andalucia	1.1	0.9
UORSA	—	4.2
Others	0.5	0.9
Total	**361.7**	**344.8**

(1) Our EBITDA for the year ended December 31, 2018 does not reflect one-time expenses of €40.5 million related to the completion of the Original Acquisition. Adjusted for this one-time expense, our Adjusted EBITDA for the year ended December 31, 2018 would have been €368.8 million.

Latin American Currency Effects

Our Latin American businesses account for a significant and increasing portion of the operating revenues, EBIT and EBITDA of the 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 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 2018 compared to 2017, the depreciation of local currencies against the euro had a negative impact on our results of operations. 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 generally have not entered into currency hedging transactions in the past and, other than to a limited extent, do not intend to enter into currency hedging transactions in the foreseeable future.

The depreciation of the Argentine peso against the euro has historically adversely affected our results of operations and financial condition in prior years and during 2017. 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 continued to decline, albeit more gradually, through 2013. 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. During 2014, there was a 46.9% depreciation of the Argentine peso against the euro, in part due to the default of Argentina on its sovereign bonds; the exchange rate was Ps. 10.86 per euro as of December 31, 2014 and there was also significant depreciation at the end of 2015 when the Marci administration was elected. The average exchange rate of the euro and the Argentine peso used to prepare our consolidated financial statements for the year ended December 31, 2017 was Ps. 19.07 per euro.

During 2017 and 2018, the depreciation of the Colombian peso against the euro has adversely affected our results of operations. The average exchange rate of the Colombian peso against the euro over these periods decreased by 4.0%. During 2017 and 2018, the depreciation of the Mexican peso against the euro also adversely affected our results of operations. The average exchange rate of the Mexican peso against the euro over these periods decreased by 5.7%.

Due to translation effects, in our historical consolidated financial statements, the depreciation of the Argentine, Colombian and Mexican peso has resulted in a decrease in euro terms of the revenues of our Argentine, Colombian and Mexican businesses, our Casinos and Bingo Division and the Group. The impact of these declines has been partially offset due to the incurrence of most of the operating costs of these businesses in their respective local currencies, but still resulted in lower operating margins in the case of 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.

The following table presents the average exchange rates of the euro used to prepare our financial information for each of the years indicated:

	In the year ended December 31,	
One € Equals	**2017**	**2018**
Argentine Peso	19.0700	—
U.S. dollar	1.1370	1.1793
Colombian Peso	3,363.9338	3,500.0434
Mexican Peso	21.4158	22.6348

Factors Affecting Comparability

Historical and New Cost Structures

Prior to the completion of the Original Acquisition, the Cirsa Group entered into a significant number of transactions on a regular basis with Nortia. Transactions in the ordinary course of business included lease agreements, the charter of airplanes and the sale of goods. Although some of these transaction remain in place following the completion of the Original Acquisition (see "*Certain Relationships and Related Party Transactions*"), most of these transactions are not recurring following the Original Acquisition, and we are no longer incurring such expenses. We also incurred a significant amount of debt in connection with the Original Acquisition in 2018. As described in note 10 to our special purpose consolidated financial statements for the year ended December 31, 2018, the acquisition by the Company of the Cirsa Group resulted in the recognition of €476 million in the fair value of the assets acquired and €968 million of goodwill. We anticipate that these adjusted valuations will result in an increase in our future operating expenses due to the increased depreciation and amortization expense related to the increased carrying value of our fixed assets and intangible assets. Accordingly, the historical consolidated financial statements presented in this annual report are not indicative of our future results of operations, financial position and cash flows.

Adoption of IFRS 16 – Leases

As described in note 2.4 to our special purpose consolidated financial statements for the year ended December 31, 2018, we have adopted IFRS 16 Leases with effect from January 1, 2019. IFRS 16 establishes that lessees shall recognize in the consolidated balance sheet a financial liability for the present value of the payments to be made over the remaining life of the lease agreement and a right-to-use asset for the underlying asset, which is measured based on the amount of the associated liability, to which the initial direct costs incurred are added. Additionally, the recognition criteria for lease expenses has changed. Lease expenses are now recorded as a depreciation charge for the lease asset and as a financial expense for the lease liability. In relation to lessor accounting, the standard has not changed substantially and entities shall continue to classify the lease as an operating or finance lease based on the extent to which risks and rewards inherent to the ownership of the asset are substantially transferred.

We have estimated the impact on our balance sheet from the initial application of IFRS 16 as of January 1, 2019 as follows:

- Recognition of assets under the caption “Right-of-use assets” (non-current asset) in an amount of approximately €265 million and an increase in debt under the caption “Non-current and current finance lease liabilities” of €212 million and €53 million, respectively. These primarily relate to our leases on offices, vehicles, buildings and halls where our gaming activities are carried out.

We have estimated the impact from the application of IFRS 16 on our consolidated statement of comprehensive income for the year ended December 31, 2018 as follows:

- Increased depreciation expense for right-of-use assets in an amount of approximately €56 million (offset by decreased operating expenses and, consequently, increased gross operating profit) and increased finance costs for the lease liabilities. However, our consolidated profit/(loss) for the period is not significantly affected.

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. Revenues and profitability were adversely affected by the economic downturn in Spain following the 2008 financial crisis but were offset by the contribution of slots and VLTs in Italy. Our Spanish slot machine operations have improved modestly, as the Spanish economy has recovered. 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 of 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.

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.

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 in Spain have been relatively stable in recent years.

We are a network system operator for slot machines and VLTs in Italy. The Italian slots and VLT market has been characterized by significant regulatory, tax and operational uncertainty. We made substantial investments from 2009 through 2013 in connection with the first-time deployment of VLTs. As described in "*Regulation—Italy*," there were a number of developments in recent years that resulted in or may result in increased taxes and other costs for our Italian business in the near future, including increases to the gaming turnover (PREU) taxes payable on slot machines from 21.5% (from September 1, 2018 to April 30, 2019) to 21.6% (from January 2023) and on VLTs from 7.50% (from September 1, 2018 to April 30, 2019) to 7.85% (from January 2023), as well as new regulatory changes reducing the percentage of wages payable as winnings down to 68% for slot machines and 84% for VLTs and requiring other technical upgrades which may result in further investments in updates to or replacements of machines. In 2015, the Italian government also introduced an aggregate €500 million tax to be applied to gaming machine operators and of which Cirsa Italia was allocated a portion relative to its share of the Italian market of VLTs and amusement-with-prize ("*AWP*") slots machines, as determined by the ADM. This tax was repealed in 2016. In September 2016, we sold our 50% interest in a joint venture that operated 1,500 slot machines in Italy.

Casinos

Our Casinos Division is comprised of our Spanish casino business (including our casinos in Morocco) and our casinos businesses in Latin America. 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 depend 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 have been generated by our casinos in Latin America, principally our casinos in Argentina, Panama and Colombia, in which we have made significant investments. During 2015, we entered the Costa Rican market by acquiring seven casinos and acquired two additional casinos in the Dominican Republic. 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, although the performance of our Spanish casino business has improved since 2016.

In addition, we acquired a casino in Las Palmas in 2015 and entered the adjacent market of Morocco with the acquisition of one casino in the resort city of Agadir in December 2015. In 2017, we acquired 17 electronic casinos in Peru (12 of which are located in Lima and the remaining five are located in other cities throughout the country). In 2018, we acquired a casino in the Dominican Republic which operates 26 tables and 130 slot machines, for a total cash consideration of $14 million.

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 Colombia and for *Casino de Rosario* in Argentina have been impacted by increases in gaming taxes. 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.

During 2017, the results of operations of our Argentine subsidiaries were negatively impacted by changes in the taxation regime.

Bingo

Our Bingo Division operates bingo halls in Spain and Mexico and has a minority interest in 11 bingo halls in Italy as of December 31, 2018. We also have 1 bingo hall in Italy which we fully own.

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 have been adversely impacted by a variety of factors, including customer demographics, the effects of the strict smoking bans and the economic downturn. Our Spanish bingo operations have improved since 2014 as the Spanish economy has recovered. 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 have closed 20 bingo halls since January 1, 2011, including one bingo hall in 2017 and one bingo hall in 2018. The closure of bingo halls has resulted in decreased revenues and the payment of severance expenses. We have recorded significant impairment charges in respect of our Spanish bingo halls in 2017 and may record additional impairment charges in the future.

We entered the Mexican bingo hall business in 2006, and as of December 31, 2018, we operated 21 bingo halls in Mexico. In contrast to the Spanish bingo hall business, our Mexican bingo hall operations have a broad entertainment offer, including casino-style slot machines, and gaming tables. As is the case with some of our other businesses, our Mexican bingo hall business has been impacted by changes in regulation and the regulatory environment. These changes include changes in the type of gaming machines permitted to be installed in bingo halls and the degree of robustness of the enforcement of laws and regulations. The performance of our Mexican business has improved as the regulatory environment has stabilized in recent years with the codification of Mexican gaming laws and regulations. In 2018, we acquired a bingo hall in Guadalajara (Mexico) which operates 560 slot machines and 25 tables, for a total cash consideration of €16 million. Our total number of bingo halls operated in Mexico has therefore increased from 20 to 21.

B2B

Our B2B Division engages in the development of interactive gaming systems and designs, manufactures and distributes slot machines and gaming kits for the Spanish market. 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 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 Division 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 due to the economic downturn.

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 and interlinked bingo games in Catalonia, Madrid and Andalusia.

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 revenues 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 from 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 revenues 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 revenues 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 Division and our Casinos Division, 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 Expenses

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

Gaming Taxes

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.

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 statement of cash flows, 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 us are recorded in the consolidated balance sheet under "*Cumulative Translation Reserve*" and therefore do not affect the consolidated profit and loss account so long as the loans constitute a component of our 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 Group has grown, and the significant international operations of the Group, our tax position is complex.

For Spanish tax purposes, as of December 31, 2018, we had three groups that filed their tax returns on a fiscal consolidated basis: one group has 16 Spanish companies, the second group has seven Spanish companies and the third group has 65 Spanish companies. As of December 31, 2018, under Spanish tax legislation, we must have owned more than 75% of the capital stock of a company at the start of the tax year in order to include the company in 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 jurisdictions.

The statutory corporate tax rate in Spain during 2018 was 25%. 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. The statutory corporate tax rate in Spain during 2019 is 25%.

Minority Interest

Minority interest is comprised of the results included in consolidated results for which we do not own 100%. In our historical consolidated financial statements, our minority interests are principally attributable to our historical minority ownership interests in Winner Group in Colombia, *Casino de Rosario* in Argentina, a Panamanian casino business and one Spanish slots business (Egartronic S.A.).

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.

Historical Results of Operations

Year ended December 31, 2018 compared to the year ended December 31, 2017

The following table sets forth, by business division, operating revenues, net operating revenues, EBIT and EBITDA for the years ended December 31, 2018 and 2017:

	For the year ended December 31,		
(in € millions)	**2017**	**2018**	**Change**
	(restated)	**(audited)**	
Operating Revenues:			
Slots	929.2	970.5	41.3
Casinos	487.1	509.8	22.7
Bingo	230.2	239.7	9.5
B2B	93.9	89.5	(4.4)
Other[(1)]	(78.9)	(69.3)	9.6
Total	**1,661.6**	**1,740.2**	**78.6**

	For the year ended December 31,		
(in € millions)	**2017**	**2018**	**Change**
	(restated)	**(audited)**	
Net Operating Revenues:			
Slots	673.1	708.1	35.0
Casinos	485.0	506.9	21.9
Bingo	222.4	232.1	9.7
B2B	93.9	89.5	(4.4)
Other[(1)]	(78.5)	(67.5)	11.0
Total	**1,395.9**	**1,469.1**	**73.2**

(in € millions)	For the year ended December 31,		
	2017	2018	Change
	(restated)	(audited)	
EBIT:			
Slots	25.0	49.6	24.6
Casinos	111.9	102.8	(9.1)
Bingo	36.1	28.4	(7.7)
B2B	8.9	8.2	(0.7)
Other[(1)]	(10.4)	(56.3)	(45.9)
Total	**171.6**	**132.7**	**(38.9)**

(in € millions)	For the year ended December 31,		
	2017	2018	Change
	(restated)	(audited)	
EBITDA:			
Slots	128.8	141.1	12.3
Casinos	181.5	183.0	1.5
Bingo	53.9	55.7	1.8
B2B	11.9	12.7	0.8
Other[(1)]	(25.2)	(64.1)	(38.9)
Total	**350.8**	**328.3**	**(22.6)**

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

Historical Group Results of Operations

Net Operating Revenues

Net operating revenues increased by €73.2 million, or 5.2%, to €1,469.1 million in 2018 from €1,395.9 million in 2017. The increase in net operating revenues was primarily due to growth in revenues from our Spanish operations and the steady organic growth of our Latin American casinos despite the negative exchange rate impact from Latin American currencies.

EBIT

EBIT decreased by €38.9 million, or 22.7%, to €132.7 million in 2018 from €171.6 million in 2017. The decrease was primarily due to one-time expenses of €40.5 million related to the Original Acquisition.

EBITDA

EBITDA decreased by €22.6 million, or 6.4%, to €328.3 million in 2018 from €350.8 million in 2017. EBITDA margin (EBITDA as a percentage of net operating revenues) decreased from 25.1% in 2017 to EBITDA margin of 22.3% in 2018. The decrease in EBITDA was primarily due to one-time expenses of €40.5 million related to the Original Acquisition. Adjusted for this one-time expense, our Adjusted EBITDA for the year ended December 31, 2018 would have been €368.8 million, representing an increase of 5.1% compared to our EBITDA for the year ended December 31, 2017.

Financial Results

Financial results were negative €129.6 million in 2018 as compared to negative €64.2 million in 2017. Financial results in 2018 were negatively impacted by €27.6 million of premium paid for the redemption of €950 million of senior notes in 2018, €8.4 million write-off of capitalized issuance costs in relation to the redemption of these senior notes and the net increase of €610 million in financial debt as a result of the issuance of the Existing Notes.

Foreign Exchange Results

Foreign exchange results were negative €11.5 million in 2018 as compared to €1.3 million in 2017. The difference was primarily due to the depreciation of the Mexican peso and the U.S. dollar against the euro.

Income Tax Expense

Income tax expense decreased to €28.4 million in 2018 from €39.1 million in 2017. The difference was primarily due to a decrease in deferred taxes due to the impact of the purchase price allocation carried out in connection with the Original Acquisition.

Net Profit

As a result of the foregoing, net profit, after minority interests, was negative €284.0 million in 2018 as compared to €70.8 million in 2017.

Historical Results of Operations by Division

Slots

(in € millions)	For the year ended December 31, 2017 (restated)	2018 (audited)	Change
Operating Revenues	**929.2**	**970.5**	**41.3**
Variable rent	(256.1)	(262.3)	(6.2)
Net Operating Revenues	**673.1**	**708.1**	**35.0**
Consumption	(38.7)	(42.2)	(3.5)
Personnel expenses	(66.0)	(71.3)	(5.3)
Gaming taxes	(363.2)	(376.1)	(12.9)
External supplies and services	(76.4)	(77.5)	(1.1)
Depreciation, amortization and impairment	(103.7)	(91.5)	12.2
EBIT	**25.0**	**49.6**	**24.6**
EBITDA	**128.8**	**141.1**	**12.3**

Operating Revenues. Operating revenues from our Slots Division principally represent revenues collected from our slot machines after prize payouts. Operating revenues increased by 4.4% from €929.2 million in 2017 to €970.5 million in 2018.

Net Operating Revenues. Net operating revenues from our Slots Division represent operating revenues after variable rent payments made to site owners. Net operating revenues increased by 5.2% from €673.1 million in 2017 to €708.1 million in 2018.

In Spain, net operating revenues increased by 7.1% in 2018 as compared to 2017, primarily due to the addition of 1,507 slot machines to our Spanish operations and the resultant synergies. Average revenues per unit also increased in 2018 as compared to 2017, reflecting the strengthening of the ongoing recovery in 2018.

In Italy, net operating revenues increased by 3.3% in 2018 as compared to 2017. This increase was primarily due to the optimization of our slot machine portfolio by the discontinuation of underperforming AWP slot machines.

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 1.6% to €658.6 million in 2018 as compared to €648.0 million in 2017. 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 3.6% from €363.2 million in 2017 to €376.1 million in 2018. As a percentage of segment net operating revenues, gaming taxes decreased to 53.1% in 2018 from 54.0% in 2017. The decrease in gaming taxes as a percentage of segment net operating revenues was primarily due to the mix of higher Spanish revenues compared to Italian revenues.

- *Personnel Expenses.* Personnel expenses include wages and salaries for commercial, collection and technical support employees. This expense category increased by 8.0% to €71.3 million in 2018 from €66.0 million in 2017.

- *Consumption.* Consumption costs are primarily comprised of payments to sub-operators. This expense category increased by 8.9% from €38.7 million in 2017 to €42.2 million in 2018.

- *External Supplies and Services.* This expense category increased by 1.4% from €76.4 million in 2017 to €77.5 million in 2018.

- *Depreciation, Amortization and Impairment.* Depreciation, amortization and impairment expenses decreased by 11.8% from €103.7 million in 2017 to €91.5 million in 2018. In 2017, this expense category included a €5.0 million impairment charge with respect to Italian slot operations. Recurring depreciation, amortization and impairment expenses remained stable in 2018 compared to 2017.

EBIT. EBIT for our Slots Division increased from €25.0 million in 2017 to €49.6 million in 2018.

EBITDA. EBITDA for our Slots Division increased by 9.6% from €128.8 million in 2017 to €141.1 million in 2018. EBITDA margin (EBITDA as a percentage of segment net operating revenue) increased to 19.9% in 2018 as compared to 19.1% in 2017.

In Spain, EBITDA increased by 10.8% to €119.4 million in 2018 from €107.8 million in 2017. This increase was due to increase in net revenue per slot and the implementation of productivity measures.

EBITDA for our Italian business increased by 3.5% to €21.7 million in 2018 as compared to €21.0 million in 2017. The gaming tax increase and the discontinuation of 1,803 slot machines as required by the 2016 Italian Stability Law negatively impacted EBITDA for our Italian business.

Casinos

	For the year ended December 31,		
(in € millions)	**2017**	**2018**	**Change**
	(restated)	**(audited)**	
Operating Revenues	**487.1**	**509.8**	**22.6**
Variable rent	(2.1)	(2.9)	(0.8)
Net Operating Revenues	**485.0**	**506.9**	**21.9**
Consumption	(8.1)	(8.2)	(0.1)
Personnel expenses	(85.3)	(89.3)	(4.0)
Gaming taxes	(75.4)	(82.1)	(6.7)
External supplies and services	(134.7)	(144.4)	(9.6)
Depreciation, amortization and impairment	(69.6)	(80.2)	(10.6)
EBIT	**111.9**	**102.8**	**(9.1)**
EBITDA	**181.5**	**183.0**	**1.5**

Operating 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 4.6% from €487.1 million in 2017 to €509.8 million in 2018.

Net Operating Revenues. Net operating revenues from our Casinos Division represent operating revenues after variable rent payments. Net operating revenues increased by 4.5% from €485.0 million in 2017 to €506.9 million in 2018. The increase in net operating revenues was driven by the steady organic growth of our Latin American operations, despite the negative exchange rate impact from the depreciation of Latin American currencies 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 increased from €373.1 million in 2017 to €404.1 million in 2018. 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 by 7.2% to €144.4 million in 2018 from €134.7 million in 2017. As a percentage of net operating revenues, this expense category increased by 0.7% to 28.5% in 2018 compared to 27.8% in 2017.

- *Gaming Taxes.* Gaming taxes increased by 8.8% to €82.1 million in 2018 as compared to €75.4 million in 2017. As a percentage of net operating revenues, this expense category increased to 16.2% in 2018 from 15.5% in 2017. The increase in gaming taxes was primarily due to the reversal of a gaming tax provision of €4.5 million in 2017.

- *Personnel Expenses.* Personnel expenses increased by 4.7% to €89.3 million in 2018 compared to €85.3 million in 2017. As a percentage of net operating revenues, this expense category remained stable at 17.6%.

- *Depreciation, Amortization and Impairment.* Depreciation, amortization and impairment expenses increased to €80.2 million in 2018 as compared to €69.6 million in 2017. This increase was primarily due to the purchase price allocation carried out in relation to the Original Acquisition.

- *Consumption.* Consumption costs principally include ordinary course costs such as playing cards and chips and food and beverage expenses. Consumption costs increased to €8.2 million in 2018 from €8.1 million in 2017. As a percentage of net operating revenues, this expense category decreased by 0.1% to 1.6% in 2018 from 1.7% in 2017.

EBIT. EBIT from our Casinos Division decreased by 8.1% to €102.8 million in 2018 from €111.9 million in 2017. EBIT margin (EBIT as a percentage of segment net operating revenues) for the Casinos Division decreased to 20.3% in 2018 from 23.1% in 2017.

EBITDA. EBITDA for our Casinos Division increased by 0.8% to €183.0 million in 2018 from €181.5 million in 2017. EBITDA margin (EBITDA as a percentage of segment net operating revenues) decreased to 36.1% in 2018 compared to 37.4% in 2017. The EBITDA increase was primarily due to the steady growth of our Latin American operations, combined with the positive impact of operating efficiencies, which have offset the depreciation of Latin American currencies against the euro. EBITDA margin decreased primarily due to the depreciation of Latin American currencies against the euro.

Bingo

	For the year ended December 31,		
(in € millions)	**2017**	**2018**	**Change**
	(restated)	**(audited)**	
Operating Revenues	**230.2**	**239.7**	**9.5**
Variable rent	(7.9)	(7.7)	0.2
Net Operating Revenues	**222.4**	**232.1**	**9.7**
Consumption	(10.7)	(11.6)	(0.9)
Personnel expenses	(43.7)	(45.6)	(2.0)
Gaming taxes	(53.3)	(52.5)	0.8
External supplies and services	(60.8)	(66.6)	(5.8)
Depreciation, amortization and impairment	(17.8)	(27.3)	(9.5)
EBIT	**36.1**	**28.4**	**(7.7)**
EBITDA	**53.9**	**55.7**	**1.8**

Operating 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 21 halls in Mexico, which have a broad entertainment offer, including casino-style slot machines.

The following table sets forth the number of bingo halls operated by our Bingo Division as of December 31, 2018 and 2017:

As of December 31	**2017**	**2018**
Spain	37	37

Mexico	20	21
Italy	12	12
Total	**69**	**70**

Operating revenues from our Bingo Division increased by 4.1% from €230.2 million in 2017 to €239.7 million in 2018.

Net Operating Revenues. Net operating revenues from our Bingo Division represent operating revenues after variable rent. Net operating revenues increased by 4.4% to €232.1 million in 2018 as compared to €222.4 million in 2017. Revenues for our Spanish bingo business were positively impacted by an increase in the number of visits and higher customer expenditures per visit.

Net operating revenues from our bingo halls in Mexico increased by 8.1% to €101.3 million in 2018 compared to €93.7 million in 2017. Revenues were positively impacted by the performance of our bingo halls and the contribution from the bingo hall in Guadalajara which we acquired in 2018.

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 increased by 9.3% from €186.3 million in 2017 to €203.6 million in 2018. The key changes in the components of segment operating expenses are as follows:

- *Gaming Taxes.* Gaming taxes decreased by 1.4% to €52.5 million in 2018 from €53.3 million in 2017.
- *Personnel Expenses.* Personnel expenses are primarily comprised of the wages and salaries and employee benefits of our bingo hall staffs. Personnel expenses increased by 4.5% from €43.7 million in 2017 to €45.6 million in 2018. As a percentage of segment net operating revenues, personnel expenses remained stable at 19.6% in 2017 and 2018.
- *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 increased by 8.1% from €10.7 million in 2017 to €11.6 million in 2018.
- *Depreciation, Amortization and Impairment Expenses.* Depreciation, amortization and impairment expenses increased from €17.8 million in 2017 to €27.3 million in 2018. This increase was primarily due to purchase price allocation carried out in relation to the Original Acquisition.
- *External Supplies and Services.* External expenses increased by 9.5% to €66.6 million in 2018 from €60.8 million in 2017.

EBIT. EBIT from our Bingo Division decreased from €36.1 million in 2017 to €28.4 million in 2018.

EBITDA. EBITDA for our Bingo Division increased by 3.4% to €55.7 million in 2018 from €53.9 million in 2017. EBITDA margin (EBITDA as a percentage of net operating revenues) remained stable at 24.0% in 2018 compared to 24.2% in 2017.

Our Mexican business contributed EBITDA of €34.2 million in 2018 as compared to €32.6 million in 2017. The increase in EBITDA of our Mexican business was primarily due to the positive performance of our bingo halls and the contribution of the additional bingo hall in Guadalajara that offset the depreciation of the Mexican peso against the euro.

B2B

	Year ended December 31,		
(in € millions)	**2017**	**2018**	**Change**
	(restated)	**(audited)**	
Net Operating Revenues	**93.9**	**89.5**	**(4.4)**
Consumption	(49.1)	(41.1)	8.0
Personnel expenses	(18.3)	(20.2)	(1.8)
Gaming taxes	(0.2)	(0.2)	0.0

(in € millions)	Year ended December 31, 2017 (restated)	2018 (audited)	Change
External supplies and services	(14.4)	(15.4)	(1.0)
Depreciation, amortization and impairment	(3.0)	(4.5)	(1.5)
EBIT	**8.9**	**8.2**	**(0.7)**
EBITDA	**11.9**	**12.7**	**0.8**

Net Operating Revenues. Net operating 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 and interlinked bingo games in Madrid, Andalusia and Catalonia. Net operating revenues from our B2B Division decreased by 4.7% to €89.5 million in 2018 from €93.9 million in 2017. The decrease in net operating revenues was due to the continuing soft demand for 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 4.4% from €85.0 million in 2017 to €81.3 million in 2018.

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

- *Consumption.* Consumption costs primarily are comprised of purchases of semi-finished and finished components. Consumption costs decreased by 16.3% from €49.1 million in 2017 to €41.1 million in 2018. As a percentage of net operating revenues, this expense category decreased from 52.3% in 2017 to 45.9% in 2018. The decrease was primarily attributable to higher contribution from the sale of refurbishment kits, which have proportionately lower consumption costs as compared to slot machine cabinets or gaming kits.

- *External Supplies and Services.* External supplies and services expenses increased by 7.1% from €14.4 million in 2017 to €15.4 million in 2018.

- *Personnel Expenses.* Personnel expenses increased by 10.0% from €18.3 million in 2017 to €20.2 million in 2018.

- *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 by 48.0% from €3.0 million in 2017 to €4.5 million in 2018.

EBIT. EBIT from our B2B Division decreased from €8.9 million in 2017 to €8.2 million in 2018.

EBITDA. EBITDA for our B2B Division increased by 6.2% from €11.9 million in 2017 to €12.7 million in 2018. EBITDA margin (EBITDA as a percentage of segment net operating revenues) increased to 14.2% in 2018 from 12.7% in 2017. EBITDA and EBITDA margin in 2018 were impacted positively due to a higher contribution from the sale of refurbishment kits and systems (usually with higher margin) in the sales mix.

Liquidity and Capital Resources Historical Cash Flows

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

Current account with Nortia Corporation. Before the Original Acquisition, we engaged in a variety of transactions with one of the Original Sellers, 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. Following the completion of the Original Acquisition, these transaction are limited to certain legacy arrangements.

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 statement of cash flows 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 statement of cash flows.

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 ADM. 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 statement of cash flows, 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 Statement of Cash Flows

Year ended December 31, 2018 compared to the year ended December 31, 2017

	Year ended December 31,	
(in € millions)	**2017**	**2018**
	(restated)	**(audited)**
Cash flows from operating activities		
Profit before tax, as per the consolidated profit and loss accounts	101.1	0.0
Adjustments for non-cash revenues and expenses:		
Depreciation, amortization and impairment	176.5	193.1
Allowances for doubtful accounts and inventories	2.8	2.5
Other	(5.5)	14.4
Financial items included in profit before tax:		
Financial results	64.2	129.6
Foreign exchange results	1.3	11.5
Results on sale of non-current assets	5.0	(8.5)
Adjusted profit before tax from operations before changes in net operating assets	**345.3**	**342.7**
Variations in:		
Receivables	1.6	3.8
Inventories	(1.2)	(2.0)
Payables	1.6	6.4
Deferred Taxes, payable	(1.2)	(5.0)
Accruals, net	(9.1)	2.4
Cash generated from operations	337.0	348.3
Income taxes paid	(37.0)	(24.0)
Net cash flows provided by operating activities from continuing operations	300.0	324.3
Net cash flows provided by operating activities from discontinued operations	35.9	21.4
Net cash flows provided by operating activities	**335.9**	**345.8**
Cash flows from (used in) investing activities		
Purchase and development of property, plant and equipment	(96.8)	(107.7)
Purchase and development of intangibles	(47.4)	(52.5)
Acquisition of participating companies, net of cash acquired	(54.1)	(55.1)
Proceeds from sale of assets	0.0	29.4
Purchase of other financial assets	0.0	(14.5)

(in € millions)	Year ended December 31, 2017 (restated)	2018 (audited)
Interest received on loans granted and cash revenues from other financial assets	1.3	2.3
Net cash flows used in investing activities from continuing operations	(197.0)	(198.1)
Net cash flows used in investing activities from discontinued operations	(1.0)	(28.9)
Net cash flows used in investing activities	**(198.0)**	**(227.0)**
Cash flows from (used in) financing activities		
Proceeds from bank borrowings	1,631.2	1,450.2
Repayment of bank borrowings	(1,649.9)	(1,470.6)
Repayment of bonds	0.0	(977.6)
Shareholders contribution	—	948.7
Capital lease payments	0.0	(0.4)
Interest paid on financial debt	(65.1)	(92.7)
Dividends Paid and Other	(16.6)	(25.3)
Net cash flows used in financing activities from continuing operations	(100.4)	(167.8)
Net cash flows used in financing activities from discontinued operations	(21.1)	(7.4)
Net cash flows from (used in) financing activities	**(121.5)**	**(175.3)**
Net variation in cash and cash equivalents	16.5	(56.6)
Net foreign exchange differences	(4.3)	(3.5)
Cash and cash equivalents at January 1	200.0	212.2
Cash and cash equivalents at December 31 from discontinued operations	**37.1**	**0.0**
Cash and cash equivalents at December 31 from continuing operations	**175.0**	**152.2**

Cash Flows from Operating Activities. Our net cash flow from operating activities was €345.8 million in 2018 and €335.9 million in 2017. The difference in our net cash flow from operating activities in 2018 compared to 2017 was primarily due to the positive impact in working capital movements and less income taxes paid.

Cash Flows used in Investing Activities. Our net cash flow used in investing activities was €227.0 million in 2018 and €198.0 million in 2017. The difference in our net cash flow used in investing activities in 2018 as compared to 2017 was due to cash flows used in investing activities from discontinued operations.

Cash Flows used in Financing Activities. Our net cash flow used in financing activities was €175.3 million in 2018 and €121.5 million in 2017. The difference in our net cash flow used in financing activities in 2018 compared to 2017 was primarily due to higher interest paid in 2018 following the additional debt incurred in connection with the Original Acquisition.

Working Capital Requirements

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.

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.

Year ended December 31, 2018 compared to the year ended December 31, 2017

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

(in € millions)	Year ended December 31, 2017	2018
Variations in:		
Receivables	1.6	3.8

Inventories	(1.2)	(2.0)
Payables	1.6	6.4
Deferred Taxes, payable	(1.2)	(5.0)
Accruals, net	(9.1)	2.4
Total	**(8.3)**	**5.6**

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 €2.7 million in 2017 to €3.3 million in 2018.

The total variation in working capital changed to positive €5.6 million in 2018 from negative €8.3 million in 2017. The change in working capital was primarily attributable to variations in gaming tax payables and net accruals.

Capital Expenditures

We define capital expenditures to include the following items of our consolidated statement of cash flows: "*Purchase and development of property, plant and equipment*" and "*Purchase and development of intangibles*."

	Year ended December 31,	
(in € millions)	**2017**	**2018**
Purchase and development of property, plant and equipment	96.8	107.7
Purchase and development of intangibles	47.4	52.5
Total Capital Expenditures	**144.2**	**160.2**

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. The following table sets forth our capital expenditures by business division:

	Year ended December 31,	
(in € millions)	**2017**	**2018**
Capital expenditures by business division		
Slots	66.8	70.0
Casinos	48.2	47.5
Bingo	22.3	37.9
B2B	6.6	4.2
Structure	0.3	0.6
Total Capital Expenditures	**144.2**	**160.2**

Our total capital expenditures for 2018 were €160.2 million. Our major capital expenditures in 2018 included:

- €115.3 million of maintenance expenditures; and
- €44.9 million on the other expansion of our business.

Our total capital expenditures for 2017 were €144.2 million. Our major capital expenditures in 2017 included:

- €105.3 million of maintenance expenditures; and
- €38.9 million on the other expansion of our business.

We estimate that our total capital expenditures for 2019 will be approximately €122 million. However, this estimate does not include estimated capital expenditures for any planned acquisitions for 2019. The principal area of spending will be for maintenance capital expenditures. In addition, we expect to focus capital expenditures on organic growth initiatives.

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.

Our consolidated contractual obligations as of December 31, 2018 were as follows:

(in € millions) Contractual Obligations	Total	Payments due by period Less than 1 year	1-3 years	After 4 years
Long term debt	1,574.1	—	43.7	1,530.4
Promissory notes	23.6	11.4	5.6	6.6
Capital lease agreements (short term)	0.9	0.9	—	—
Other obligations (short term)	44.5	44.5	—	—
Multigroup and affiliated companies	0.9	—	0.9	—
Total contractual obligations	**1,644.0**	**56.8**	**50.2**	**1,537.0**

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.

Liquidity

Intra Group Funding for the Group

The liquidity needs of the Group 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.

Our subsidiaries may be restricted from providing funds to us and our other subsidiaries 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.

A significant portion of the Group's revenues and EBITDA is generated by its Latin American businesses. 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 the periods under review have been the issuance of debt securities, borrowings under long-term and short-term credit facilities, 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. Following the Original Acquisition, our principal external sources of liquidity were the Existing Notes, the Revolving Credit Facility and the other sources of liquidity such as local lines of debt for the Group as summarized in "*Description of Certain Indebtedness*."

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. We also have been exploring opportunities to obtain local financings in certain jurisdictions in which we operate, in addition to our bank facilities in Colombia, Panama and Italy.

We have substantial debt and debt service obligations. As of December 31, 2018, we had approximately €1,643.1 million of total debt. Our level of debt has increased during the last five years. In addition, we may incur substantial additional debt in the future.

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

- meet our debt service requirements under the Existing 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 and adjacent markets, 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.

If we are required to borrow additional amounts, our ability to do so could be restricted by the terms of the Indenture and the terms of our bank indebtedness.

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 some countries in Latin America, are subject to relatively high inflation rates.

Effects of Related Party Transactions

We have engaged in a significant number and variety of transactions with Blackstone and our management, and certain other companies associated with Blackstone and our management. See "*Certain Relationships and Related Party Transactions.*"

The Company has not paid any dividends to its shareholders during the period under review.

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 Dinerario Plurianual 2019-2023*" or "*Multiyear Incentive Plan 2019-2023*"). We do not have any material pension commitments or other similar obligations.

Critical Accounting Policies

For a discussion of our critical accounting policies and changes in our accounting policies we refer to note 2 to our special purpose consolidated financial statements as of and for the year ended December 31, 2018.

RISK FACTORS

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. This annual report contains "forward-looking" statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward looking statements. Factors that might cause such differences are discussed below and elsewhere in this annual report. See "Forward Looking Statements."

Risks Relating to the Gaming Industry and Our Business

Our business may be negatively impacted by the economic volatility and political conditions in Spain and other markets in which we operate.

For the year ended December 31, 2018, our operations in Spain accounted for 45.7% of our consolidated net operating revenues and 46.6% of our consolidated Adjusted EBITDA. While Spain's economy has been gradually improving since 2013, Spain experienced a significant economic downturn between 2008 and 2012 and was impacted by the credit crisis. The unemployment rate, while improving in relative terms, was reported to be 16.6% and 14.5% in December 2017 and 2018, respectively. The gross domestic product, which contracted in 2012 and 2013, began a modest recovery in 2014 and has been growing at a rate of 3.4% in 2015, 3.2% in 2016, 3.1% in 2017 and 2.5% in 2018. The economic downturn has had 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 decreased commencing in 2009, and, while increasing in recent years, have not yet recovered to the pre-downturn levels. The decrease in visitors and length of visit have, in turn, adversely affected our results of operations since 2009 and have only shown signs of recovery since 2015. The economic downturn in Spain and the effects of the credit crisis also adversely impacted the availability and cost of our bank financing in Spain. While the Spanish economy has been experiencing a modest recovery in recent years, continued concerns about the political uncertainty, unemployment and the availability and cost of credit pose risks for the full recovery of the Spanish economy. In addition, political events have occurred in the Autonomous Region of Catalonia (*Comunidad Autónoma de Cataluña*) related to the ongoing independence movement in that region. Any continued uncertainty in the region may have a negative impact on the region's economy and potentially on the economy of Spain. As a result, any new significant economic downturn or change in political conditions could have a material adverse effect on our results of operations and financial condition.

Our operations in Italy accounted for 6.0% of our consolidated Adjusted EBITDA for the year ended December 31, 2018. Italy was in an economic downturn from 2011 to 2014 and recorded relatively flat GDP growth in 2015, 2016, 2017 and 2018. Following the elections in March 2018, Italy was without a government until June 1, 2018, as no political group was able to form a majority for almost three months. On June 1, 2018, a Eurosceptic government was formed, which is putting Italy's Eurozone membership in question. Depending on the actions of Italy's new government, Italy could lose access to the single European Union market, which could result, among other things, in the disruption of the free movement of goods, services and people between Italy and the European Union, undermine bilateral cooperation in key geographic areas and significantly disrupt trade between Italy and the European Union or other nations as Italy pursues independent trade relations. This could have an impact on the general and economic conditions in Italy or other European economies and could lead to lower access to European markets in general. Any fundamental shift in the macroeconomic environment in Italy or the parts of Europe in which we operate could adversely affect the accuracy of our predictions regarding the expected returns. Further, if Italy exits the monetary union, this could end the single currency within Europe, which could increase foreign currency exchange risk to which we are exposed and could impact our results. To the extent that such changes increase the costs or difficulties associated with operating in both Italy and other EU countries, they could have a material adverse effect on our business (including Spain), results of operation and financial condition.

Our results of operations are also dependent on the economic and political conditions of other markets in which we operate, including Panama, Colombia, Mexico and other parts of Latin America, some of which have experienced economic declines recently and during various periods in the past decade. Furthermore, our business is particularly sensitive to reductions in discretionary consumer spending, which may be affected by negative economic and political conditions. Economic contraction, economic and political 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 economic and political 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, 2018, net operating revenues and Adjusted EBITDA from our operations outside of Spain accounted for 54.3% of our consolidated net operating revenues and 53.4% of our consolidated Adjusted EBITDA, respectively. We have operations in eight countries outside of Spain, including Italy and Morocco 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, effective January 1, 2019, gaming tax rates in Peru have increased from 12% to 17% and, if we are unable to effectively mitigate the impact of such tax increases, it could have a significant impact on our results of operations in Peru. As a further example, the profitability of the Italian Video Lottery Terminal ("*VLT*") sector has declined since 2012, after the Italian government has increased taxation on VLTs in a series of hikes of the gaming turnover tax taking it from 2% to 6%. See "*Regulation*." Our Italian slots and VLT businesses have also been adversely impacted by other tax increases and are subject to unpredictable regulatory developments. For example, starting from January 1, 2017, only authorizations for remote AWP slots (those slots with an online link which allows remote monitoring by the Italian gaming regulator) can be granted. After December 31, 2019 the release of authorizations for non-remote AWP slots (traditional coin or electric operated slot machines) will be prohibited and non-remote AWP slots must be disposed of by December 31, 2020. While we regularly work to reassess and renegotiate the terms of our slot machine and VLT service contracts with site operators in order to mitigate the impact of tax and regulatory changes on our operations, there can be no guarantee that we will be successful in fully offsetting the impact of such changes on our financial results.

In addition, 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 46.6% of consolidated Adjusted EBITDA for the year ended December 31, 2018, is in Latin America, including Panama, Colombia, Mexico, Costa Rica, 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. Recent developments in global commodities markets (in particular with respect to oil) and slowing Chinese demand for unfinished goods from the region has significantly impacted the local economies in Latin America. In the past, governments in Latin America have frequently intervened in the economies of their respective countries and have occasionally made significant changes in policy and regulations as a result of political changes or economic declines. For example, depending on the actions of the recently elected government in Mexico, the gaming regulatory regime in Mexico may be subject to change. 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 such actions and the economic volatility they create.

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 euro, 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, a decline in the U.S. dollar, which is a *de facto* functional currency for certain of our Latin American operations and which strengthened against the euro throughout 2015 and 2016, and depreciated against the euro in 2017 and 2018, could adversely impact our results of operations. Our results of operations and financial position have also 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 generally 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.

We do not control certain of our joint venture businesses.

We operate a number of our businesses through strategic partnerships, joint ventures and alliances. We are party to a 50:50 joint venture with GVC Holdings Plc for sports betting and 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. Although we do not hold a majority interest in the *Majestic Casino* in Panama or the VLT joint venture in Italy, due to the requirements of IFRS 11, we fully consolidate the results of operations, cash flows and balance sheets (including cash and indebtedness) of these businesses in our consolidated financial statements. 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 reasonably terms or at all. For example, under 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*) and pursuant to the provisions applicable to unlisted companies, unless otherwise agreed in the bylaws, from the fifth financial year following registration of a Spanish company in the Commercial Registry, a shareholder who has stated in the act of the general meeting of shareholders its objection regarding the insufficient amount of dividends to be distributed will be entitled to withdraw ownership if the general meeting of shareholders does not resolve to distribute at least 25% of legally distributable profits obtained during the prior financial year, provided that profits have been obtained in the previous three financial years and that the total dividends distributed in the previous five financial years does not equal at least 25% of the legally distributable profits of such period. This right to withdraw is also recognized to the shareholders of the parent company of a group legally required to prepare consolidated annual accounts, if the general meeting of shareholders of such parent company does not resolve to distribute at least 25% of the consolidated profits attributable to the parent company obtained during the previous financial year, provided that they can be legally distributed and that profits attributable to the parent company have been obtained during the previous three financial years. Under such circumstances, we might seek or be required to acquire the ownership interests of our partners.

There is a risk that we may lose our share in the Sportium joint venture and that our existing joint venture in relation to Sportium may terminate.

We are currently involved in arbitration proceedings with our joint venture partner in the *Sportium* joint venture relating to the change of control provision in the joint venture agreement. On December 2, 2013, Ladbrokes B&G and Cirsa entered into a joint venture agreement in connection with the provision, under the *Sportium* brand, of sports-betting, both online and through betting machines. In March 2018, GVC Holdings plc acquired the entire issued share capital of Ladbrokes Coral Group, which included Ladbrokes B&G, Cirsa's joint venture partner. In July 2018, Cirsa was acquired by Blackstone. A dispute has arisen between Cirsa and Ladbrokes B&G regarding the meaning and scope of the change of control provisions under the *Sportium* joint venture agreement and, more specifically, whether it grants the parties reciprocal rights of protection in the event that a competitor acquires one of the partners of the *Sportium* joint venture.

On July 11, 2018, Cirsa filed a request for arbitration proceedings against Ladbrokes B&G before the *Corte de Arbitraje del Ilustre Colegio de Abogados de Madrid* ("*CIMA*"), claiming, among other things, that GVC's acquisition of Ladbrokes B&G was a change of control according to the joint venture agreement and asserting Cirsa's right to acquire Ladbrokes B&G' shares in *Sportium* at fair market value due to the change of control provision. On September 10, 2018, Ladbrokes B&G filed its response and initiated a counterclaim asserting that Blackstone's acquisition of Cirsa was a change of control according to the joint venture agreement and, accordingly, Ladbrokes B&G has the right to acquire Cirsa's shares in the *Sportium* joint venture. On March 29, 2019, Cirsa filed its statement of claim, where it developed the facts and legal grounds underlying its claim against Ladbrokes B&G. Ladbrokes B&G shall submit the statement of defense and counterclaim by June 3, 2019. The arbitration proceedings are in its early stages and we are unable to provide an assessment of the possible outcome at this time. However, if the arbitration court ultimately rules that Blackstone's acquisition of Cirsa constitutes a change of control under the joint venture agreement and, accordingly, Ladbrokes B&G has the right to acquire Cirsa's share of the *Sportium* joint venture, Cirsa may be obliged to sell its shares in the *Sportium* joint venture to Ladbrokes B&G at fair value as determined by the aribtration court. If we are obliged to exit the *Sportium* joint venture, we cannot assure you that we would be able to develop an online and retail sports betting business as competitive, efficient or profitable as under the existing *Sportium* joint venture and there can be no guarantee that we will be successful in fully offsetting the impact of any losses arising from the termination of the *Sportium* joint venture. Consequently, a potential termination of the *Sportium* joint venture could have an adverse effect on our business, financial condition and results of operations.

We may experience significant losses with respect to individual events or betting outcomes in our Sportium joint venture with GVC Holdings Plc 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 Casinos 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, the 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 GVC Holdings Plc, 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. Through our *Sportium* joint venture, 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 (including applicable anti-corruption and economic sanctions laws) 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, which could result in litigation.

Our operations, including our online businesses, 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 and slot machines permitted at casinos and bingo halls 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 were involved in protracted litigation since 2007 with respect to the conduct of our Italian slot network operations with the Italian Corte dei Conti ("*CdC*") and the *Amministrazione Autonoma Monopoli di Stato* (the Italian gaming regulator, now replaced by *Agenzia delle Dogane e dei Monopoli*) (the "*ADM*").

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 ADM litigation ruled in our favor rejecting the ADM claims (which ruling was appealed but upheld). In 2015, the ADM assessed additional fees of €19.8 million (which were to be collected by Cirsa and on behalf of Cirsa and certain of our operating partners) (the "*ADM Determination*"). We have paid a total of €18.2 million of this amount. There is an additional €1.6 million of the ADM Determination left to be paid, which is owed by certain of our partner operators, and the decision of the Regional Administrative Court of Lazio is pending regarding whether Cirsa has joint and several liability to pay this remaining amount. See "*Regulation.*" While we take certain actions in order to attempt to mitigate the impact of additional fees when they arise, there can be no assurance that we will be successful in doing so. In addition, a number of local authorities in Italy have issued orders and enacted regulations that purport to place further restrictions on where slot machines and VLTs can be located. The 2016 Italian Stability Law directed the Italian Treasury to issue new regulations aimed at—*inter alia*—reducing by 30% the number of slot machines that were in operation on July 31, 2015 in the context of a broader process of technical improvement and modernization of the existing slot machines. We may incur additional expenses in order to comply with these new requirements which may impact the financial results of our Italian operations. See "*Regulation.*"

In addition, the Argentina Business has been directly and indirectly subject to a variety of legal proceedings and other claims over the past years, some of which are significant. These proceedings and claims have included several proceedings regarding the validity of its casino license, criminal proceedings against a number of its directors and employees in Argentina relating to the importation of a riverboat casino into Argentina and potential tax claims by municipal tax authorities. Effective July 3, 2018, the Argentina Business no longer constitutes a part of the Group business parameter. Even though the Argentina Business is no longer part of the Group, claims and actions could potentially be brought against us in connection with these other and other legacy litigation matters. To the extent any claims and liabilities resulting from such legacy litigation might not be recoverable against indemnities given by the Original Sellers under the Original Acquisition Agreement, such claims and liabilities could have a material adverse effect on our results of operations, business and financial results.

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 regulator 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. For example, the 2018 Italian Stability Law calls for Italy's 210 existing bingo concessions to be reviewed by the *ADM* throughout the year and to be awarded by means of a public tender process, which renewal process could adversely impact our Italian bingo hall joint venture. More generally, any failure to renew or obtain any material licenses 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 if determined to be against the public interest or, for example in Panama, upon a change of control. 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.

Furthermore, we also face risks in relation to properties that we lease in order to operate our casinos and licenses required in relation to these leases. For example in Colombia we operate casinos under lease agreements, and under certain lease agreements for property in Medellin we have been subject to demands by landlords to vacate premises. While we have received court rulings in our favor, landlords have appealed with respect to lease agreements governing the leases of two casinos in Medellin. If the appeal proceedings are decided in favor of the landlords, we may have to vacate these casino premises and will be unable to open new casinos in Medellin due to local regulations which prohibit the opening of new casinos in the city. Potential premises closures or relocations could have an adverse effect on our business or results of operations and financial condition.

We have implemented policies and procedures designed to prevent and detect violations of applicable anti-corruption and sanctions laws. It is possible that allegations of corrupt conduct may arise in the future, irrespective of these policies, given that we frequently conduct business with governmental or quasigovernmental entities and work in countries and regions that have a reputation for heightened corruption risk.

Any investigation, enforcement action and/or judgment under the FCPA, Bribery Act or other anti-corruption laws or economic sanctions laws and regulations may carry high financial and reputational costs and could result in severe criminal or civil sanctions and penalties, including fines, loss of authorizations needed to conduct aspects of our international business. A violation of the laws and regulations set out above could have a material adverse effect on our cash flows, financial condition and results of operations.

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. If we fail to comply with new anti-money laundering laws in certain jurisdictions, then we could be subject to financial penalties or prohibited from operating in such jurisdictions, which could have a material adverse effect on our business, financial condition and results of operations. Future increases in national or regional taxation of slot machines, casinos and bingo halls could also affect our profitability. See “*Regulation*.”

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

We entered the online gaming business in Spain and Italy (our Italian online gaming operations have since been terminated) during 2012, and in Mexico in 2015 (although this operation was also terminated at the end of 2016) and in Colombia during this year 2018, after obtaining the necessary permissions and licenses. Our online operations are now conducted through our *Sportium* joint venture. In 2012, one of our competitors, Codere, challenged the granting of our Spanish online 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—Online Gaming.*” Failure to maintain these licenses could negatively impact our financial condition and results of operations. We are working together with third-party advisors 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 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 online gaming rules, laws and regulations or we may not be able to successfully block users resident in countries which restrict or prohibit online gaming or in which we are not licensed to conduct online gaming operations, such as the United States, from accessing our online 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 online gaming market could negatively impact our business, results of operations and financial condition.

The market for online 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 through our *Sportium* joint venture 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.

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

We intend to continue to make selective investments and acquisitions in the gaming industry in Spain, Latin America and adjacent markets as a part of our business plan and may expand our existing businesses on a selective basis into new gaming products and new geographic markets. We expanded our business into online gaming in Spain and Italy (our Italian online gaming operations have since been terminated) during 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. In the past, we have made investments in our online gaming platform which we have since sold to our *Sportium* joint venture with GVC Holdings Plc and in which we have yet to generate positive EBITDA. In 2015, we completed the purchase of a majority stake in one casino in Morocco for approximately €22.0 million and in 2017, we acquired additional casinos in Peru for $26 million. 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, investments or expansion 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 or investments, 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 Egasa, 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 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 relatively limited number of licensed casinos in Spain and Latin American markets and adjacent geographic areas, we may face competition from other forms of gaming, such as bingo halls, lotteries and online gaming. In Spain and other markets, 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 characterized 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. 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 Novomatic.

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 (before a replacement or refurbishment is made) 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 online 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 online 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. Additionally, to the extent we get associated with, in the press or otherwise, criminal or civil allegations or charges made against persons we have conducted business with in the past, our reputation in that jurisdiction and globally may be adversely affected, despite the fact that we do not bear responsibility or liability for the alleged behavior or actions. 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 online gaming platform. 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. Though 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 customers 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.

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. Our employees are not under any obligation to report their membership with a trade union. Based on a rough estimate, we believe 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, and La Toja, 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. 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.

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. In 2015, we acquired one casino in the resort town of Agadir, Morocco. There is a significant terrorism threat in Morocco and there have been terrorist attacks in other parts of Morocco (and in neighboring countries such as Algeria) in the recent past, which may have an impact on tourism and hence reduce the attendance of tourists in our casino in Agadir. Any increase in violence in the countries in which we operate could have a material adverse effect on our operations.

Risks Related to our Structure

The Group's significant leverage and debt service obligations could materially adversely affect its business and prevent it from fulfilling its obligations with respect to the Existing Notes and the guarantees thereof.

The Group currently has a significant amount of outstanding debt and debt service requirements. As of December 31, 2018 the Group's total debt was €1,643.1 million, which reflects the Existing Notes and other borrowings.

The Group's significant leverage could have important consequences for its business and for holders of the Existing Notes, including, but not limited to:

- making it difficult to satisfy its obligations with respect to the Existing Notes and other debts and liabilities;
- increasing vulnerability to, and reducing its flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of its cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures (including the development of the Group's renewables businesses), acquisitions, joint ventures, product research and development or other general corporate purposes;
- limiting its flexibility in planning for, or reacting to, changes in its business and the competitive environment and the industry in which the Group operates;
- placing the Group at a disadvantage to its competitors, to the extent that they are not as highly leveraged;
- restricting us from pursuing strategic acquisitions or exploiting certain business opportunities; and
- limiting its ability to borrow additional funds and increasing the cost of any such borrowing.

Any of the foregoing or other consequences or events could have a material adverse effect on the Group's ability to satisfy its debt obligations, including the Existing Notes. The Group's ability to make payments on and refinance its debt and to fund acquisitions, working capital, capital expenditures and other expenses will depend on its future operating performance and ability to generate cash from operations. The Group's ability to generate cash from operations is subject, in large part, to general economic, competitive, legislative, regulatory factors and other factors that are beyond its control. Therefore, the

Group may not be able to generate sufficient cash flow from operations or obtain enough capital to service its debt, or to fund its working capital needs, or capital expenditure. For a discussion of our cash flows and liquidity, see "*Operating and Financial Review and Prospects— Liquidity and Capital Resources Historical Cash Flows*."

We are subject to restrictive covenants under our Revolving Credit Facility Agreement and the Existing Indenture, which could impair our ability to run our business.

Restrictive covenants under the Revolving Credit Facility Agreement and the Existing Indenture may restrict our ability to operate our business. Our failure to comply with these covenants, including as a result of events beyond our control, could result in an event of default that could materially adversely affect our financial condition and results of operations.

The Revolving Credit Facility Agreement and the Existing Indenture contain negative covenants restricting, among other things, our ability to:

- make certain loans or investments;
- incur indebtedness or issue guarantees;
- sell, lease, transfer or dispose of assets and subsidiary stock;
- merge or consolidate with other companies;
- transfer all or substantially all of our assets;
- pay dividends and make other restricted payments;
- create or incur liens;
- agree to limitations on the ability of our subsidiaries to pay dividends or make other distributions; and
- enter into transactions with affiliates.

The restrictions contained in the Revolving Credit Facility Agreement and the Existing Indenture could affect our ability to operate our business and may limit our ability to react to market conditions or take advantage of potential business opportunities as they arise. For example, such restrictions could adversely affect our ability to finance our operations, make strategic acquisitions, investments or alliances, restructure our organization or finance our capital needs. Additionally, our ability to comply with these covenants and restrictions may be affected by events beyond our control. These include prevailing economic, financial and industry conditions. If we breach any of these covenants or restrictions, we could be in default under the Revolving Credit Facility Agreement or the Existing Indenture.

If there were an event of default under any of our debt instruments that is not cured or waived, the holders of the defaulted debt could terminate their commitments thereunder and cause all amounts outstanding with respect to such indebtedness to be due and payable immediately, which in turn could result in cross defaults under our other debt instruments, including the Existing Notes. Any such actions could force us into bankruptcy or liquidation, and we may not be able to repay our obligations under the Existing Notes in such an event.

In addition to the risk factors set out above, we are also subject to the following risks:

- Our failure to comply with regulations regarding the use of personal customer data could subject us to lawsuits, administration fines or result in the loss of goodwill of our customers.
- Our systems may be vulnerable to hacker intrusion, distributed denial of service attack, malicious viruses and other cybercrime attacks.
- We are subject to taxation which is complex and often requires us to make subjective determinations.
- Our results of operations are impacted by fluctuations in foreign currency exchange rates.

- Terrorist attacks and other acts of violence or war may affect our business and 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 Company may not be able to enforce claims with respect to the representations and warranties that the Original Sellers have provided to it under the Original Acquisition Agreement.

- Cirsa and its subsidiaries may have liabilities that were not known to the Company prior to the Original Acquisition, and the indemnities negotiated in the Original Acquisition Agreement may not adequately protect us.

MANAGEMENT

There have been no changes to management in 2018.

PRINCIPAL SHAREHOLDERS

The Issuer is a wholly owned subsidiary of the Company, a holding company which is indirectly controlled by Blackstone, which is the indirect principal shareholder of our holding company's voting stock. As of the date of this annual report, Blackstone beneficially owned 97.2% of the equity of the Company, and 2.8% is beneficially owned by certain members of the Group's management team. Following the Original Acquisition, Cirsa is now a wholly owned subsidiary of the Company and a sister company of the Issuer.

The Blackstone Group L.P. (NYSE: BX) is one of the world's leading investment firms. Blackstone's alternative asset management businesses include investment vehicles focused on private equity, real estate, public debt and equity, non-investment grade credit, real assets and secondary funds, all on a global basis.

Through its different investment businesses, as of March 31, 2019, Blackstone had total assets under management of over $511.8 billion. This is comprised of $159.0 billion in private equity funds, $140.3 billion in real estate funds, $80.2 billion in hedge fund solutions and $132.3 billion in credit businesses.

Blackstone has a strong track record in owning leading companies in the gaming sector both in online gaming and casinos, as evidenced by its investments in JOA (the French casino group) and the Cosmopolitan Hotel in Las Vegas, USA.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Material agreements between the Group and Nortia

Transitional Services Agreement

On January 1, 2010, the Cirsa Group and Nortia entered into a transitional services agreement (the "*TSA*") on an arms' length basis, pursuant to which the Cirsa Group provides certain services (including, without limitation, IT, accounting, audit, treasury, legal, and human resources services) to Nortia and its affiliates, payments for which amounted to €0.8 million in 2017 and €0.5 million in 2018. Following completion of the Original Acquisition, the TSA was terminated on March 31, 2019. Under the TSA, Nortia paid a monthly amount of approximately €118,000 to the Group in consideration for the services provided under the TSA.

Transactions with Management

The Original Acquisition

Certain members of the managing board and other selected executives have received a transaction bonus from the Original Sellers after closing of the Original Acquisition, and have reinvested at least 90% of such bonus after tax in LHMC Topco S.à r.l.

Management Participation Program

On July 3, 2018, we implemented a management participation program related to the reinvestment of certain selected managers of the Group at the level of an indirect shareholder of the Issuer.

Transactions with Blackstone

Support and Services Agreement

On July 3, 2018, we entered into a support and services agreement with Blackstone Management Partners L.L.C. ("*BMP*"), an affiliate of Blackstone, our indirect parent and Blackstone Capital Partners VII L.P. Under the support and services agreement, we engage BMP to arrange for Blackstone's portfolio operations group to provide support services customarily provided by Blackstone's portfolio operations group to Blackstone's private equity portfolio companies of a type and amount determined by such portfolio services group to be warranted and appropriate. In addition, pursuant to the support and services agreement, Blackstone, without discrete compensation, actively monitors the operations of the Group and evaluate strategic transactions and other initiatives that Blackstone views as potentially beneficial for the Group. Under this arrangement, the Group pays or reimburses BMP and its affiliates for out-of-pocket costs and expenses incurred by BMP and its affiliates and indemnifies BMP and its affiliates and related parties, in each case, in connection with the provision of such services under the support and services agreement.

DESCRIPTION OF CERTAIN INDEBTEDNESS

The following is a summary chart of our material indebtedness as of December 31, 2018. For a description of all the applicable terms and conditions of such arrangements we refer to the offering memorandum of June 22, 2018 issued by the Company in relation to the offering of the Existing Notes and the actual agreements.

	Payments due by period ending December 31,					After December 31,	
(in € millions)	**2019**	**2020**	**2021**	**2022**	**2023**	**2023**	**Total**
Bank loan agreement[(1)]	27.0	17.7	14.5	11.0	7.9	0.6	**78.7**
Revolving Credit Facility[(2)]	—	—	—	—	—	—	—
Local revolving facilities	5.9	—	—	—	—	—	**5.9**
Receivables financing	0.0	—	—	—	—	—	**0.0**
Total bank debt	**33.0**	**17.7**	**14.5**	**11.0**	**7.9**	**0.6**	**84.7**
Capital leasing agreements[(3)]	0.9	0.3	0.1	0.0	—	—	**1.4**
Existing Notes[(4)]	2.9	—	—	—	1,522.0	—	**1,524.9**
Gaming tax deferrals[(5)]	8.5	—	—	—	—	0.0	**8.5**
Promissory notes and other loans[(6)]	11.4	1.2	3.1	1.3	1.9	4.7	**23.6**
Total	**56.8**	**19.2**	**17.6**	**12.3**	**1,531.7**	**5.3**	**1,643.1**

(1) Represents bank debt recorded under "Credit institutions" as non-current liabilities and current liabilities.

(2) Represents the Revolving Credit Facility available to the Group pursuant to the Revolving Credit Facility Agreement entered into by the Group on June 22, 2018. The Revolving Credit Facility provides for revolving commitments of up to €200 million. The Revolving Credit Facility may be used for general corporate purposes, to fund acquisitions and to fund working capital of the Group.

(3) Represents capital lease obligations recorded under "Credit institutions" as non-current liabilities and current liabilities.

(4) Represents the aggregate outstanding principal amount of the Existing Notes as of December 31, 2018, including accrued but unpaid interest. As of December 31, 2018, the aggregate outstanding principal amount of the euro-denominated Existing Notes was €1,088 million and of the dollar-denominated Existing Notes was $550.0 million (€480.3 million equivalent).

(5) Represents tax deferrals of recorded under "Tax authorities" as non-current liabilities and under "Other creditors" as current liabilities.

(6) Represents promissory notes and other loans recorded under "Other creditors" as non-current liabilities and current liabilities.