

Cirsa Gaming Corporation, S.A.



2015 Annual Report

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1. CERTAIN DEFINITIONS

In this annual report:

- “2018 notes” refers to the 8.750% Senior Notes due 2018 issued by Cirsa Funding;
- “2021 notes” refers to the €450.0 million aggregate principal amount of 5.750% senior notes due 2021 issued on April 27, 2016 pursuant to the 2021 notes indenture;
- “2023 notes” refers to the €500.0 million aggregate principal amount of 5.875% senior notes due 2023 issued on May 6, 2015 pursuant to the 2023 notes indenture;
- “2018 notes indenture” refers to the indenture dated May 5, 2010, between among others, Cirsa, the Issuer and the 2018 notes trustee, as amended by the supplemental indenture dated June 10, 2014 and pursuant to which the Issuer issued the 2018 notes;
- “2021 notes indenture” refers to the indenture dated April 27, 2016, executed by, among others, Cirsa, the Issuer and the 2021 notes trustee and pursuant to which the Issuer will issue the 2021 notes;
- “2023 notes indenture” refers to the indenture dated May 6, 2015, executed by, among others, Cirsa, the Issuer and the 2023 notes trustee and pursuant to which the Issuer will issue the 2023 notes;
- “2018 notes trustee” means Deutsche Trustee Company Limited in its capacity as trustee under the 2018 notes indenture;
- “2021 notes trustee” means Deutsche Trustee Company Limited in its capacity as trustee under the 2021 notes indenture;
- “2023 notes trustee” means Deutsche Trustee Company Limited in its capacity as trustee under the 2023 notes indenture;
- “Cirsa” refers to Cirsa Gaming Corporation S.A. a *sociedad anónima* incorporated under the laws of Spain under Barcelona Commerce Register page number B-380, sheet 102 and volume 42002;
- “Cirsa Funding” or the “Issuer” refers to Cirsa Funding Luxembourg S.A., a *société anonyme* incorporated and existing under the laws of the Grand Duchy of Luxembourg, the issuer of the notes having its registered office at 58, rue Charles Martel, L-2134 Luxembourg and registered with the Register of Trade and Companies of Luxembourg under number B 149519;
- “EU” refers to the European Union;
- “IFRS” refers to International Financial Reporting Standards, as adopted by the EU;
- “Indentures” means the 2018 notes indenture, the 2021 notes indenture and the 2023 notes indenture;
- “notes” means the 2018 notes, the 2021 notes and the 2023 notes;
- “offering” means the offering for sale to investors of the 2021 notes that was completed on April 19, 2016;
- “Revolving Credit Facility” refers to the senior secured revolving credit facility dated May 5, 2010, among Cirsa, Deutsche Bank AG, London Branch and other parties thereto, as amended on February 4, 2011, as amended and restated on February 5, 2013, as

amended on April 14, 2015, and amended and restated on April 29, 2015, and as otherwise amended, extended, restated or refinanced from time to time;

- “Tender Offer” means the Issuer’s offer, announced April 18, 2016, to purchase for cash any outstanding 2018 notes held in a global note by non-U.S. holders pursuant to Regulation S of the U.S. Securities Act of 1933, as amended;
- “United States” or the “U.S.” refer to the United States of America;
- “VLT” refers to Video Lottery Terminals; and
- “we,” “our,” “us,” and other similar terms collectively refer to Cirsa and its consolidated subsidiaries, except where the context otherwise requires.

2. INDUSTRY AND MARKET INFORMATION

We have generally obtained the market and competitive position data in this annual report from industry publications and from surveys or studies conducted by third party sources that we believe to be reliable. Unless otherwise noted, statistical data relating to the Spanish gaming market cited in this annual report has been published by the Spanish National Gaming Commission (Comisión Nacional del Juego) in their 2014 annual report (the last available annual report).

The information in this annual report that has been sourced from third parties has been accurately reproduced and, as far as we are aware and able to ascertain from the information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Notwithstanding the foregoing, such third party information has not been independently verified, and we do not make any representation or warranty as to the accuracy or completeness of such information set forth in this annual report.

This annual report also contains estimations of market data and information derived from such data that cannot be obtained from publications by market research institutes or from other independent sources. Such information is partly based on our own market observations, the evaluation of industry information (such as from conferences and sector events) or internal assessments. We believe that our estimates of market data and the information we have derived from such data helps investors to better understand the industry we operate in and our position within it. Our own estimates have not been checked or verified externally. We nevertheless assume that our own market observations are reliable. We give no warranty for the accuracy of our own estimates and the information derived from them. They may differ from estimates made by our competitors or from future studies conducted by market research institutes or other independent sources.

While we are not aware of any misstatements regarding the industry or similar data presented herein, such data involves risks and uncertainties and are subject to change based on various factors, including those discussed under the headings “*Risk Factors*”, “*Business*” and “*Regulation*” in this annual report. As a result, we do not make any representation as to the accuracy or completeness of any such information in this annual report.

3. PRESENTATION OF FINANCIAL INFORMATION

This annual report includes our audited consolidated financial statements as of and for the years ended December 31, 2015, December 31, 2014 and December 31, 2013. These consolidated financial statements are prepared in accordance with IFRS, as adopted by the European Union (“IFRS—EU”), and were audited by our independent auditors, Ernst & Young S.L. and Cortés & Pérez Auditores y Asesores Asociados, S.L.

This annual report also presents summary financial information for the years ended December 31, 2011 and December 31, 2012, which have been derived from our audited consolidated financial statements as of and for the years ended December 31, 2011 and 2012, respectively, prepared in

accordance with IFRS—EU. Our audited consolidated financial statements as of and for the years ended December 31, 2011 and December 31, 2012 are not included in this annual report.

In order to enable investors to compare our financial results for the years ended December 31, 2014 and 2015 with prior periods, we have presented in this annual report, as required by IFRS—EU, certain reclassified financial information as of and for the year ended December 31, 2013 after giving effect to IFRS 11. The comparability is limited since such reclassified financial information does not give effect to the modifications of the management arrangements for the *Casino de Rosario* and *Majestic Casino* joint ventures and certain bingo hall and slot machines joint ventures implemented during 2014. All financial information presented as of and for the years ended December 31, 2014 and December 31, 2015 has been presented giving effect to the adoption of IFRS 11. Since the restated financial information for the year ended December 31, 2013 does not give effect to the modifications of the management arrangements that occurred during 2014, the comparability of the results of operations for the years ended December 31, 2014 and December 31, 2015 with the year ended December 31, 2013 for the Group and the Casinos Division is impacted. This is particularly due to the materiality of the results of operations of *Casino de Rosario* which, for the first time, were fully consolidated during the year ended December 31, 2014 (and were likewise fully consolidated for the year ended December 31, 2015). See “*Operating and Financial Review and Prospects—Consolidation Method and Adoption of IFRS 11*”.

We prepare our financial statements in euro..

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

Percentages and amounts reflecting changes over time periods relating to financial and other data set forth in the section “*Operating and Financial Review and Prospects*” are calculated using the numerical data in the consolidated financial statements or the tabular presentation of other data (subject to rounding) contained in this annual report, as applicable, and not using the numerical data in the narrative description therein.

4. CURRENCY PRESENTATION

In this annual report:

- “\$,” “U.S. dollar” or “dollars” refer to the lawful currency of the United States;
- “€” or “euro” refer to the single currency of of the member states of the European Union that adopt or have adopted, and in each case continues to adopt, the euro as its lawful currency in accordance with legislation of the European Union relating to Economic and Monetary Union;
- “Ps.” or “Argentine Peso” refer to the lawful currency of Argentina; and
- “Colombian Peso” refers to the lawful currency of Colombia.

5. FORWARD LOOKING STATEMENTS

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

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

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

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

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

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

6. SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following selected profit and loss account data, balance sheet data and other data as of and for the years ended December 31, 2011, 2012, 2013, 2014 and 2015 have been derived from our audited consolidated financial statements for the years ended December 31, 2011, 2012, 2013, 2014 and 2015. Our audited consolidated financial statements as of and for the years ended December 31, 2011 and December 31, 2012 are not included in this annual report. See “*Presentation of Financial Information.*”

In order to enable investors to compare our financial results for the years ended December 31, 2014 and 2015 with the year ended December 31, 2013, we have presented in this annual report, as required by IFRS EU, certain reclassified financial information as of and for the year ended December 31, 2013 after giving effect to IFRS 11. The comparability is limited since such reclassified financial information does not give effect to the modifications of the management arrangements for the *Casino de Rosario* and *Majestic Casino* joint ventures and certain bingo hall and slot machines joint ventures implemented during 2014. All financial information presented as of and for years ended December 31, 2014 and December 31, 2015 has been presented giving effect to the adoption of IFRS 11. Since the restated financial information for the year ended December 31, 2013 does not give effect to the modifications of the management arrangements that occurred during 2014, the comparability of the results of operations for the years ended December 31, 2014 and December 31, 2015 with the year ended December 31, 2013 for the Group and the Casinos Division is impacted. This is particularly due to the materiality of the results of operations of *Casino de Rosario* which, for the first time, were fully consolidated during the year ended December 31, 2014 (and were likewise fully consolidated in the year ended December 31, 2015). See “*Presentation of Financial Information.*”

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

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

The comparability of our results of operations and financial position as of and for the years ended December 31, 2013, 2014 and 2015 have been affected by the factors described in “*Operating and Financial Review and Prospects—Overview.*”

The comparability of our results of operations and financial position as of and for the years ended December 31, 2013, 2014 and 2015 have been affected by the factors described in “*Operating and Financial Review and Prospects—Overview.*”

	Year ended December 31,					
	2011	2012	2013	2013 ⁽¹⁾ (Restated)	2014	2015
(€ in millions)						
Summary Profit and Loss Account Data:						
Operating revenues⁽²⁾	1,499.1	1,576.3	1,585.0	1,370.1	1,591.5	1,853.3
Variable rent	(241.9)	(226.3)	(222.0)	(209.3)	(238.1)	(253.9)
Net operating revenues	1,257.2	1,350.0	1,363.0	1,160.8	1,353.4	1,599.4
Consumption	(86.7)	(81.6)	(67.2)	(61.0)	(55.9)	(73.0)
Personnel	(224.8)	(242.2)	(241.8)	(199.8)	(246.0)	(295.9)
Gaming taxes	(410.4)	(437.7)	(493.5)	(423.9)	(470.3)	(561.2)
External supplies and services	(245.2)	(266.4)	(258.4)	(222.3)	(253.0)	(289.2)
Depreciation, amortization and impairment....	(149.6)	(153.4)	(163.0)	(143.4)	(193.5)	(201.2)
Changes in trade provisions	(5.5)	(6.2)	(5.4)	(5.0)	(6.2)	(2.8)
Earnings before interest and taxes	134.9	162.5	133.7	105.3	128.4	176.0
Financial results	(96.8)	(90.5)	(93.6)	(79.0)	(88.8)	(106.3)
Foreign exchange results.....	(6.2)	(6.3)	(7.3)	(1.6)	(12.8)	(3.8)
Results on sale of non-current assets.....	(5.2)	0.1	(3.3)	(3.0)	81.8	(9.6)
Profit before tax	26.8	65.7	29.5	21.6	108.5	56.4
Income tax	(43.7)	(56.1)	(28.5)	(20.7)	(32.0)	(44.7)
Minority interest	(8.5)	(9.4)	(14.1)	(14.1)	(20.5)	(27.4)
Net profit	(25.4)	0.2	(13.1)	(13.1)	55.9	(15.7)
Selected Balance Sheet Data (at end of period):						
Cash and cash equivalents.....	66.7	55.2	58.4	45.9	78.4	114.9
Total assets.....	1,389.6	1,340.7	1,318.2	1,236.4	1,714.5	1,679.7
Total debt ⁽³⁾	936.7	923.5	966.9	922.7	1,084.9	1,102.6
Total net debt ⁽⁴⁾	870.0	868.3	908.5	876.8	1,006.5	987.6
Total shareholders' equity.....	35.6	14.1	(31.6)	(31.6)	119.6	44.0
Other Financial Data:						
EBITDA ⁽⁵⁾	290.0	322.0	302.1	253.7	328.1	380.0
Adjusted EBITDA ⁽⁵⁾	290.0	322.0	338.1	289.7	328.1	380.0
Capital expenditures ⁽⁶⁾	160.1	144.8	118.1	99.5	123.6	123.2

(1) In order to enable investors to compare our financial results for the years ended December 31, 2014 and 2015 with 2013, we have presented in this annual report, as required by IFRS-EU, certain reclassified financial information as of and for the year ended December 31, 2013 after giving effect to IFRS 11. The comparability is limited since such reclassified financial information does not give effect to the modifications of the management arrangements for the *Casino de Rosario* and *Majestic Casino* joint ventures and certain bingo hall and slot machines joint ventures implemented during 2014. All financial information presented as of and for the years ended December 31, 2014 and December 31, 2015 has been presented giving effect to the adoption of IFRS 11. Since the restated financial information for the year ended December 31, 2013 does not give effect to the modifications of the management arrangements that occurred during 2014, the comparability of the results of operations for the years ended December 31, 2014 and December 31, 2015 with the year ended December 31, 2013 for the Group and the Casinos Division is impacted. This is particularly due to the materiality of the results of operations of *Casino de Rosario* which, for the first time, were fully consolidated during the year ended December 31, 2014 (and were likewise fully consolidated for the year ended December 31, 2015). For a discussion of the adjustments to net operating revenues, Adjusted EBITDA and net debt that result from the application of IFRS 11, see “*Operating and Financial Review and Prospects—Consolidation Method and Adoption of IFRS 11.*”

(2) In accordance with IFRS, with effect from January 1, 2013, operating revenues are recorded net of Bingo prizes. Bingo prizes refers to the prizes payable on Bingo cards. Operating revenues for the year ended December 31, 2012 have been restated. Bingo prizes for the year ended December 31, 2012 were €241.3 million.

(3) Total debt of €1,102.6 million as of December 31, 2015 was comprised of (i) bank debt of €130.0 million recorded under “Credit institutions” as non-current liabilities and current liabilities, (ii) capital lease obligations of €11.1 million recorded under “Credit institutions” as non-current liabilities and current liabilities, (iii) gaming tax deferrals of €2.7 million recorded under “Tax authorities” as non-current liabilities and under “Other creditors” as current liabilities, (iv) promissory notes and other loans of €23.0 million recorded under “Other creditors” as non-current liabilities and current liabilities and (v) €452.7 million of the 2018 notes and €482.8 million of the 2023 notes (including €10.0 million 2023 notes purchased and held by us) recorded under “Bonds” as non-current liabilities

and current liabilities, in each case, net of amortized debt issuance costs and original issue discount of €13.0 million in aggregate.

- (4) We define total net debt as total debt less cash and cash equivalents.
- (5) EBITDA represents profit before tax, loss on the sale of non-current assets, foreign exchange results, financial results, and depreciation, amortization and impairment. Adjusted EBITDA (as presented herein for the year ended December 31, 2013) represents EBITDA before the CdC Settlement Payment. See “*Business—Litigation.*” We believe that it is widely accepted that EBITDA and Adjusted EBITDA provide useful information regarding a company’s ability to service and incur indebtedness. EBITDA and Adjusted EBITDA are not measurements of operating performance under IFRS, and should not be considered substitutes for operating income, net income, cash flows from operating activities or other income statement data, or as a measure of profitability or liquidity, and EBITDA and Adjusted EBITDA do not necessarily indicate whether cash flow will be sufficient or available for cash requirements. EBITDA and Adjusted EBITDA may not be indicative of our historical operating results nor are they meant to be predictive of potential future results. Because all companies do not calculate EBITDA and Adjusted EBITDA identically, the presentation may not be comparable to similarly entitled measures of other companies.

The following table presents our calculation of EBITDA and Adjusted EBITDA:

	Year ended December 31,					
	2011	2012	2013	2013 ^(a) (Restated)	2014	2015 ^(b)
	(€ in millions)					
Profit before tax	26.8	65.7	29.5	21.6	108.5	56.4
Loss/(Profit) on sale of non-current assets.....	5.2	(0.1)	3.3	3.0	(81.8)	9.6
Foreign exchange results.....	6.2	6.3	7.3	1.6	12.8	3.8
Financial results.....	96.8	90.5	93.6	79.0	88.8	106.3
Depreciation, amortization and impairment.....	149.6	153.4	163.0	143.4	193.5	201.2
Changes in trade provisions.....	5.5	6.2	5.4	5.0	6.2	2.8
EBITDA	290.0	322.0	302.1	253.7	328.1	380.0
CdC Settlement Payment ^(c)	—	—	36.0	36.0	—	—
Adjusted EBITDA	290.0	322.0	338.1	289.7	—	—

- (a) See note (1).
- (b) Our EBITDA for the year ended December 31, 2015 includes immaterial EBITDA contributions from our newly acquired Dominican Republic operations (from August 2015) and Moroccan operations (from December 2015).
- (c) CdC Settlement Payment refers to the one-time settlement payment to the CdC made on November 15, 2013. This adjustment applies only to our Slots Division. For accounting purposes, €36.0 million of the CdC Settlement Payment has been recorded as a gaming tax under our Slots Division. See “*Business—Litigation.*”
- (6) We define capital expenditures to include the following items from our consolidated cash flow statement: “Purchase and development of property, plant and equipment” and “Purchase and development of intangibles.”

7. BUSINESS

Our Company

We are one of the leading gaming companies in Spain, Italy, as well as in a number of countries in Latin America (with a focus on Argentina, Panama, Colombia, Peru, Mexico and Costa Rica), engaged in the operation of slot machines, casinos and bingo halls. We also manufacture slot machines for the Spanish market. We operate 75,309 gaming machines, 133 casinos, 70 bingo halls, 650 gaming tables, 1,450 betting locations and 120 arcades (including our casino in Morocco acquired in 2015).

In Spain we believe that we were the leader in the Spanish private gaming market, where, as of December 31, 2015 our key activities include: the operation of slot machines, in which, we believe that we were the #1 operator with 26,682 slot machines operated; the operation of four casinos; the operation of bingo halls, in which we believe that we are the #1 operator with 39 bingo halls; and the manufacture of slot machines, where we believe that we were the #1 manufacturer, with over 25,000 slot machines and gaming kits manufactured in the 12 months ended December 31, 2015. We believe we are also the #1 sports betting operator, through our 50:50 *Sportium* joint venture with Ladbrokes PLC, which offers sport betting products through outlets and betting machines installed in 1,450 slot arcades, bingo halls, bars and casinos in Spain.

In Italy, we have established a strong presence in the slot machine market with the operation of over 10,600 slot machines and over 2,500 VLTs situated in approximately 2,700 locations across central and northern Italy.

In Argentina we believe we are the #1 gaming operator with the operation of nine casinos (including three bingo halls which we operate as casinos within our Casinos Division). Our Argentine operations include two riverboat casinos in the city of Buenos Aires with 80 gaming tables and 1,580 slot machines and a casino located in Rosario with 121 gaming tables and 3,027 slot machines. Our four casinos in the Province of Mendoza operate 1,144 casino-style slot machines.

In Panama, we believe we are the #1 gaming operator with the operation of 29 casinos and a total of 28 gaming tables and 7,757 slot machines.

In Colombia, we believe we are the #1 gaming operator with the operation of 65 casinos and a total of 6,049 slot machines and 213 gaming tables.

In Peru, we believe we are a leading gaming operator following our acquisition of nine casinos in 2014. We currently operate 13 casinos in Peru with 47 gaming tables and 1,991 slot machines.

In Mexico, we believe we are a leader in the gaming industry with our 19 bingo halls which include over 5,000 slot machines.

In Costa Rica, we believe we are the #1 gaming operator with seven casinos, 26 gaming tables and 1,072 slot machines.

In the Dominican Republic, following the start of operations of the *Grand Victoria Casino* in July 2015, we operate 5 casinos with a total of 74 gaming tables and 580 slot machines.

In Morocco, following the completion of our most recent acquisition, we believe we are the leading casino operator in Agadir with a majority stake in Agadir's largest casino operating 21 gaming tables and 191 slot machines.

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, 2015, our net operating revenues and EBITDA of €1,599.4 million and €380.0 million, respectively, went up 18.2% and 15.8%, respectively, compared to the year ended December 31, 2014. In addition to our scale, our revenues and EBITDA are diversified by geography and by business segment, and for the year ended December 31, 2015, over 71% of our EBITDA was generated in countries which currently have an investment grade rating from S&P and Moody's.

We have continued our efforts to reduce our net leverage ratio (Total net debt/EBITDA) which has declined from 3.1x as of December 31, 2014 to 2.6x as of December 31, 2015.

The following table shows a breakdown of our consolidated EBITDA (excluding intercompany eliminations) for the year ended December 31, 2015, by country in which we operate:

EBITDA MIX BY COUNTRY

Country	Year ended December 31, 2015 (% of EBITDA)
Spain	29.4
Argentina	24.8
Panama	17.0
Colombia	13.6
Italy	5.7
Mexico	5.8
Other	3.7
	100.0%

Our Divisions

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

- **Casinos.** (EBITDA €252.8 million for the year ended December 31, 2015): Our Casinos Division operates 133 casinos.
 - In Spain, our casinos are located in Marbella, Valencia, La Toja and Las Palmas.
 - In Morocco, our casino is located in the resort town of Agadir.
 - In Latin America, we believe that we are the #1 gaming operator in Panama, Argentina, Costa Rica and Colombia and have achieved a leading position in Peru.
 - In Argentina, we operate 9 casinos, including two riverboat casinos in the city of Buenos Aires with 80 gaming tables and 1,580 slot machines and a casino located in Rosario with 121 gaming tables and 3,027 slot machines. Our four casinos in the Province of Mendoza operate 1,144 casino style slot machines.
 - In Panama, we operate 29 casinos with a total of 28 tables and 7,757 slot machines.
 - In Colombia, we operate 65 casinos with a total of 6,049 slot machines and 213 gaming tables.
 - In Peru, we operate 13 casinos with 47 gaming tables and 1,991 slot machines.
 - In Costa Rica, we operate seven casinos with a total of 26 gaming tables and 1,072 slot machines.

- In the Dominican Republic, we operate 5 casinos with a total of 74 gaming tables and 580 slot machines, including (i) the *Grand Victoria* casino which we acquired in July 2015 with seven gaming tables and 121 slot machines and (ii) the *Napolitano* casino which we acquired in December 2015 with seven gaming tables and 44 slot machines.
- **Slots.** (EBITDA €101.7 million for the year ended December 31, 2015): 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 Ladbrokes PLC, a British betting operator, which operates a region-based sports betting business in Spain.
 - In Spain, we believe that we were the #1 slot machine operator and the #1 sports betting operator.
 - In Italy, we operate 10,691 slot machines and 2,558 VLTs in locations across central and northern Italy.
- **Bingo.** (EBITDA €28.7 million for the year ended December 31, 2015): Our Bingo Division operates 70 bingo halls across Spain, Mexico and Italy.
 - 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, 2015 we operated a total of 39 bingo halls.
 - In Mexico, we own and operate 19 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 own and operate 12 bingo hall businesses.
- **Business-to-Business.** (EBITDA €18.9 million for the year ended December 31, 2015): Our Business-to-Business (B2B) Division engages in the development of interactive gaming systems, concentrating on ready-to-market products such as interconnected slot machines, linked bingo products and electronic on-line lotteries and also designs, manufactures and distributes slot machines and gaming kits for the Spanish market. We believe that we are the #1 manufacturer in the Spanish market, with over 25,000 slot machines and gaming kits manufactured in the year ended December 31, 2015.

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 nine 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, 2015, 71% of our EBITDA was generated in countries which currently have an investment grade rating from S&P and Moody's. Our recent expansion in Latin America has been concentrated in Colombia, Peru, Costa Rica and the Dominican Republic 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 recent expansion into 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, 2015, 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. In certain jurisdictions in which our Casinos Division operates, casino licenses are generally awarded after a competitive public tender process. In some cases, casino licenses are exclusive for a geographic area and granted for long periods and require substantial up-front and ongoing payments. In our Slots Division, we typically enter into five-year exclusivity agreements to place our slot machines in a given location, and many of these agreements have been consistently renewed for the past twenty years. Additionally, in our Slots Division and B2B Division, we believe a new competitor would need significant financial resources, operating expertise and a qualified workforce to build profitable operations. We believe that barriers to entry in our principal business divisions help protect our leading market position and profitability by limiting the number of new competitors in our core business segments.
- **Leading Market Position and Economies of Scale in Spain.** We are a leader in Spanish slot machine operations and manufacturing, as well as bingo hall operations. We believe that this leadership position enables us to identify and manage trends in the private gaming industry in Spain. The Spanish slot machine operator and bingo segments are highly fragmented, and we are substantially larger than our competitors. We believe that our size allows us to benefit from economies of scale in many of our businesses. For example, in our slot machine operations, we can spread the cost of providing coin collection services and rapid response to repair calls (minimizing machine downtime) over our more than 26,500 slot machines, as of December 31, 2015, 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 concentration opportunities arise in the fragmented Spanish slot machine industry.
- **Demonstrated Financial Performance.** We have proven our ability to consistently grow our EBITDA and reduce our overall level of leverage. Our EBITDA has grown from €290.0 million for the year ended December 31, 2011 to €380.0 million for the year ended December 31, 2015, a growth that has been achieved despite the historically challenging economic environment in Spain, Italy and Argentina and the more recent adverse foreign exchange movements in certain of our markets. 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, 2015 was €123.2 million (which represents 32.4% of our EBITDA) of which only €90.8 million (which represents 23.9% of EBITDA) 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. We have made significant efforts in recent years to reduce our net leverage ratio (Total net debt/ EBITDA), which declined from 3.1x as of December 31, 2014 to 2.6x as of December 31, 2015.
- **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 is based on achieving financial targets.

Our Strategy

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

- ***Continue to improve EBITDA through revenue mix management and cost optimization.*** We will focus on strengthening EBITDA through various revenue mix management and cost optimization initiatives in our core business segments and geographic markets. We will seek to ensure that our EBITDA maintains geographical and business segment diversification. We will seek to enhance our casino, slot and bingo operations through the selective expansion of existing halls and operations and increased slot machine density. We will seek to improve our products mix and realize investments that are accretive to EBITDA and meet other key criteria. In our B2B Division, we will focus on increasing the sale of higher margin products. In Spain, we will actively work to reduce costs through the closure of underperforming sites and operations. Our focus on EBITDA improvement should enable us to continue to reduce our leverage ratio; we strive to maintain a target net leverage ratio of between 2.5x to 3.0x.
- ***Enhance productivity programs across businesses and geographies.*** We will also build upon the productivity initiatives and synergies achieved in prior periods. We will continue to implement best practices across our markets to improve productivity. In our slots business, this will entail further enhancing the profitability of our slot machine portfolio, including through opportunistic slot machine rotations and replacements. In 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) nine bingo halls in Spain during 2014 and will continue to seek to close underperforming halls in order to improve profitability.
- ***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 rather than unproven “greenfield” investments. For example, in 2015 we acquired seven established casinos in Costa Rica and two casinos in the Dominican Republic. We also consider selective acquisitions in geographic markets adjacent to our traditional Spanish and Latin American operations. On December 9, 2015, we announced the acquisition of a 82% stake in one casino in the resort town of Agadir, Morocco, which operates 191 slot machines and 21 tables.

History of the Cirsa Group

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

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

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 VLT terminals in Italy. We are also party to a joint venture with Ladbrokes PLC for the operation and further development of a sports region-based betting business in Spain. The following table presents the number of slot machines and VLTs that we operated in Spain and Italy, respectively, as of December 31, 2013, 2014 and 2015.

<u>Slot Machines</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
As of December 31			
Slot Machines, Spain.....	25,046	26,678	26,682
Slot Machines, Italy	10,867	10,862	10,691
VLTs, Italy.....	2,547	2,546	2,558
Total.....	38,460	40,086	39,931

Spain

As of December 31, 2015, we directly, or indirectly through slot machine sub operators, controlled 26,682 slot machines located in approximately 18,000 sites, primarily in bars. We plan to continue to optimize our slot machine portfolio in Spain. As of December 31, 2015, we owned and operated 120 arcades, with an average of approximately 14 slot machines per arcade. We do not plan to open additional new arcades in the near future.

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

In addition to revenue sharing, we often make interest-free loans and cash payments to induce site owners to enter into or extend contracts. We collect payment on these loans over an 11-month period, on average, through an offset against the site owner's share of slot machine revenues. We record these loans as receivables on our balance sheet. For the year ended December 31, 2015, these loans and other incentives (such as contributions to bar decorations and equipment) amounted to approximately €8.4 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, 2015, we had agreements (or sub-operator agreements) covering approximately 33% of the slot machines we operate in Spain. Revenue sharing to sub-operators under these participation agreements totaled approximately €20 million for the year ended December 31, 2015.

Coin Collection and Information Systems. We carry out coin collection through approximately 295 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 65 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, which we have already installed throughout Italy, will link our slot machines located in Spain to a 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 analyse through our current data analysis systems without the need to download this information from each machine during collection runs which we expect will help us improve our Spanish slot machines operations.

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 2015, approximately 67% of our new slot machines for our Slots Division in Spain were manufactured by our B2B Division.

Sportium—Sports Betting. We operate *Sportium*, a regional sports-betting business in Spain as a 50-50 joint venture with Ladbrokes PLC (*Sportium* also includes our Spanish online gaming operations). We expect that the *Sportium* joint venture will expand its operations to certain autonomous regions in Spain in which we currently do not operate as the relevant regional gaming regulators authorize sports betting activities.

Italian Slots and VLT Businesses

As of December 31, 2015 we operated 10,691 slot machines in approximately 2,700 locations across central and northern Italy. These locations include bars, bingo halls, restaurants and service stations. We have revenue sharing agreements in place with the owners or operators of these locations. These revenue sharing agreements generally have an initial term of up to five years and are renewable annually thereafter. Pursuant to these revenue sharing agreements, we generally split revenues (net of prize pay-outs and taxes due to the AAMS) on a 50:50 basis with the owners or operators of the locations. Pursuant to interconnection agreements, we charge a fixed fee per third-party owned slot machine interlinked to our network. Third-party slot machine owners may renew these interconnection agreements on an annual basis.

In addition to slot machines, we currently operate 2,558 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 25% of the VLTs directly through Cirsa Italia and 75% through Orlando Italia, a subsidiary of our 50:50 joint venture with Grupo Berruezo, Orlando Play S.A. Cirsa Italia owns the 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. Cirsa Italia and Orlando Italia currently purchase and lease VLTs manufactured by Novomatic, Unidesa and Spiello. Our VLT operations in Italy are subject to regulatory interventions on occasion which impact our results of operations. For example, Italian legislation enacted in March of 2015 instructed the Italian government to implement a reform of the regulations applicable to the gaming industry. While the 2015 decree has since expired, the recently enacted 2016 Stability Law aims to reduce by 30% the number of slot machines in operation and requires the upgrade of existing slot machines to models subject to electronic monitoring. See “*Regulation—Italy*”.

Casinos Division

As of December 31, 2015, we operated a total of 133 casinos, four casinos in Spain and 129 casinos internationally. In December 2015, we acquired an additional casino in Morocco. Our casinos offer a variety of gaming options, from table games 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 for the years ended December 31, 2013, 2014 and 2015:

Casino Operations by Country	Year ended December 31,								
	2013			2014			2015		
	Casinos	Slots	Tables	Casinos	Slots	Tables	Casinos	Slots	Tables
Argentina ⁽¹⁾	9	7,517	210	9	7,366	210	9	7,446	201
Panama.....	27	7,690	31	28	7,541	28	29	7,757	28
Colombia.....	65	5,904	197	65	6,025	207	65	6,049	213
Peru.....	4	702	45	13	1,929	47	13	1,991	47
Costa Rica.....	—	—	—	—	—	—	7	1,072	26
Spain.....	4	227	37	4	261	43	4	275	40
Dominican Republic.....	3	416	57	3	420	57	5	580	74
Morocco.....	—	—	—	—	—	—	1	191	21
Total.....	112	22,456	577	122	23,542	592	133	25,361	650

(1) In this table, *Casino Estrella de la Fortuna* and the *Princess Casino* (our riverboat casinos) are counted as a single casino due to their colocation in Puerto Madero

We believe that our casinos appeal to the mass market customer base, while also offering features that appeal to the high end segment of the market. We have undertaken a number of initiatives to improve the performance of our casinos, including providing a full entertainment offer, increasing productivity with ticket-in/ticket-out (TITO) and player tracking systems and expanding and refurbishing existing casinos in key markets. We have also designed various marketing campaigns, such as our Cirsa Poker Tour and Poker House concept, which are intended to exploit the growing poker market. 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 very 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, 2015:

Spanish Casino Operations

- ***Casino Nueva Andalucía***, is located in one of the prime tourist locations of Spain, Marbella. This casino hosts 13 gaming tables and 85 slot machines. We believe this casino was the fourth largest of a total of 45 casinos in Spain, based on total revenues for the year ended December 31, 2015. The operating license for this casino has a term of 15 years and will be eligible for renewal in January 2019.
- ***Casino de Valencia***, is located in the city center of Valencia. We believe this casino was the fifth largest of a total of 45 casinos in Spain, based on total revenues for the year ended December 31, 2015. The casino hosts 11 gaming tables, 99 slot machines and a 200 position poker room. 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 hosts 10 gaming tables and 25 slot machines. 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 hosts 6 gaming tables and 66 slot machines. The operating license for this casino was renewed in 2015 and runs through June 2025.

Argentinian Casino Operations

- ***Casino Estrella de la Fortuna*** and the ***Princess Casino*** are our two riverboat casinos in Buenos Aires permanently harbored in Puerto Madero, a prime leisure area. Under our temporary joint-venture (UTE) agreement with Ciesa (a company owned by Casino Club (through its affiliate Inverclub) and the owner of the Palermo racetrack, HAPSA (through various of its affiliates)), we receive 50% of the profits derived from the riverboat casinos' combined total of 80 gaming tables and 1,580 slot machines. The casinos combine the space in the riverboats dedicated to gaming machines and tables with the entertainment and restaurant facilities located in the access facilities adjacent to the riverboats. Both casinos operate under a gaming license from the State Lottery of Argentina granted until 2019. See "*Business—Litigation—Litigation in connection with the casino license.*"
- ***Casino de Rosario S.A.***, in which we own a 50% equity interest, is located in Rosario, an industrial port located approximately 300 kilometers from Buenos Aires with a population of over 1.5 million. This casino commenced operations in October 2009 and has 121 gaming tables and 3,027 slot machines.
- ***Other Casinos in Argentina.*** In addition to *Casino Estrella de la Fortuna*, the *Princess Casino* and *Casino de Rosario S.A.*, we currently operate seven additional casinos in Argentina within our Casinos Division, three of these casinos are licensed bingo halls

featuring 1,695 casino-style slot machines in the province of Buenos Aires and the remaining four casinos are located in the Mendoza province. Our casinos in the Mendoza province have an aggregate of 1,144 casino-style slot machines.

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 contain, 142, 241 and 120 slot machines, respectively. Casino Rio (Medellin) and Casino Caribe La Playa are located in Medellin and contain 223 and 320 slot machines, respectively. Our casino operations in Colombia are conducted through our 50.01% interest in Winner Group, S.A.
- ***Other Casinos in Colombia.*** In addition to the above, we operate a total of 60 additional casinos in Colombia with an aggregate of 5,003 slot machines and 120 gaming tables. 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 will be due for renewal in 2016 and the remainder will be due for renewal in 2017.

Panamanian Casino Operations

- ***Majestic Casino.*** Our traditional casino in Panama, Majestic Casino, in which we currently hold a 50% interest operates 28 table games and 392 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.*** Fantastic Vista Alegre, Bingo 90, Fantastic Los Andes, Fantastic La Doña and Fantastic Los Pueblos are electronic casinos that operate 351, 323, 412, 450 and 425 slot machines, respectively.
- ***Other Casinos in Panama.*** In addition to the above, we operate a total of 23 additional casinos in Panama with over 5,404 slot machines both directly and through various joint-ventures. These additional casinos are located in Panama City, David, Peronome, 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*, we operate four additional casinos in the Dominican Republic, comprised of two 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. 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 five casinos in the Dominican Republic operate 580 slot machines and 74 gaming tables.

Peruvian Casino Operations

- ***Majestic Lima*** casino is located at the JW Marriot Hotel in Lima, the capital of Peru. The casino has 29 gaming tables and 220 slot machines.

- **Casino Miami** is located in Lima and contains a total of 204 casino-style slot machines and 18 tables.
- **Other Casinos in Peru.** We operate 11 additional casinos in Peru. Nine of these additional casinos are located in Arequipa, Peru's second largest city and were acquired in April 2014. The other two casinos, the *Joker Miraflores* and the *Premie Casino*, are located in Lima and Barranco, respectively. These 11 additional casinos have an aggregate of 1,567 slot machines.

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 has 227 slot machines and 12 tables. 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 in the main commercial avenue in San Jose. The casino has 219 slot machines. 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 has 206 slot machines. Our agreement with the hotel matures in May 2028.
- **Fiesta Casino Herradura** is located at the Wyndham hotel in the metropolitan area of San Jose. The casino has 97 slot machines and 7 tables. Our agreement with the hotel matures in August 2027.
- **Fiesta Casino Auroa** is located at the Holiday Inn hotel in downtown San Jose. The casino has 119 slot machines and 7 tables. Our agreement with the hotel matures in June 2034.
- Other casinos in Costa Rica. We operate two additional small casinos in the cities of Perez Zeledon and San Carlos with a combined offer of 112 slot machines. Additionally, we operate 92 slot machines in third parties halls under profit sharing agreements.

Moroccan Casino Operations

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

- **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. The casino operates 191 slot machines and 21 tables. The total cash consideration for the casino, which was funded with available cash, was €22.0 million, which represents an EBITDA multiple of 5.0x.

Bingo Division

Spain. We are the leader of the bingo market in Spain, with, as of December 31, 2015, a total of 39 bingo halls.

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, 2015, our bingo halls in Spain received approximately 4.5 million visitors with an average wagered amount of approximately €67 per visit. In connection with efforts to reduce our cost base and enhance our portfolio, we closed five underperforming halls in 2011, three underperforming halls in 2012 and discontinued our operations in nine underperforming halls in 2014 (five halls were closed and four halls were sold). We may close additional 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 19 were operating as of December 31, 2015. We have made significant investments in our bingo halls in Mexico in order to remodel and expand our facilities and implement the new “Casino Life” concept. The “Casino Life” concept offers our bingo hall customers a wide range of entertainment including cafes, bars, live music, sports betting, electronic bingo machines, slot machines and gaming tables. We have enhanced our offering in bingo halls by installing top of the line casino-style slot machines made by Bally, International Game Technology, WMS Gaming Inc. and Aristocrat.

Italy. Our Bingo Division holds minority interests in companies that own and operate 12 bingo hall businesses in Italy. The recently announced public tender for Italian bingo concessions may impact the Italian bingo hall businesses as the results of the tender process may impact the number and type of slot machines and VLTs available at the bingo halls. See “*Regulation—Italy*”.

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 on-line lotteries.

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

Slot Machines. We manufacture a wide variety of slot machines. Our slot machines commonly feature reel and video format options, standard and “mini” sizes, full operator flexibility to adjust the limits regarding bets, maximum prize 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. The average selling price of one of our slot machines is approximately €1,768. From time to time, we provide volume discounts to purchasers.

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

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

	Number of units sold		
	Year ended December 31,		
	2013	2014	2015
Total slot machines	32,398	32,603	25,018

Production. We assemble all our slot machines in Spain.

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

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

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

Distribution of Products in Spain. We distribute slot machines and gaming kits in Spain through four channels of distribution: (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:

Distribution channels	Year ended December 31,		
	2013	2014	2015
	(in %)		
Slots Division.....	31.3	31.4	31.0
Independent slot machine operators.....	6.2	6.0	10.4
Owned slot machine distributors.....	34.5	28.1	32.3
Independent slot machine distributors	28.0	34.5	26.3
Total	100.0	100.0	100.0

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

As of December 31, 2015, we had a team of over 81 employees in our research and development group, including software programmers and designers who are responsible for designing software that is used in our new slot machine models. Our most popular slot machine models incorporate software designed by our research and development group.

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

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

Casinos Division

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

Bingo Division

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

B2B Division

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

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

commitment to research and development, are confident that we can produce popular new games in the future.

Technological Change

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

Strategic Arrangements in Argentina

We generally work together with Casino Club S.A. and HAPSA, which are established casino businesses in Argentina, with respect to the development and operation of gaming operations that we undertake in Argentina, including our existing casinos in Buenos Aires and Rosario and our bingo halls in the Province of Buenos Aires. Our joint-venture arrangements are organized as either profit-sharing contracts, known in Argentina as UTEs, or as companies in which we and our partners own equity interests.

Cirsa, through our subsidiary Casino Buenos Aires, has entered into a UTE with Ciesa with respect to the operation and future development of the casino business in the city of Buenos Aires. Our two existing riverboat casinos in Puerto Madero have been operated under the UTE contractual arrangement since 2007. The UTE arrangement is overseen by a management board comprised of five members, three of which are appointed by us. All key decisions regarding the UTE arrangement require a supermajority approval. Presently, we and Ciesa each have a 50% economic interest under the UTE arrangement. Upon entering the UTE we retained the ownership of all of our existing assets in respect of the riverboat casinos, including the licenses, and all other assets being operated under the UTE arrangement. As part of the UTE arrangement, substantial investments were made to refurbish the two casinos and to construct new access and reception facilities.

We and Casino Club S.A. (through its affiliate Inverclub) each hold a 50% equity interest in *Casino de Rosario S.A.*, which owns a casino concession in Rosario. As part of the change in management arrangements implemented in connection with the adoption of IFRS 11, we and Inverclub entered into a shareholders agreement (effective from January 1, 2014) that modified the distribution of duties and responsibilities among the members of the board that are appointed by us and Inverclub, respectively. Pursuant to such new arrangements, Class A board members (appointed by Inverclub) are responsible for the (a) financial management (including the management of all financial resources), and the (b) management of personnel, human resources, labor and security relationships of *Casino de Rosario*; while Class B board members (appointed by Casino Buenos Aires) are responsible for its (x) operations (i.e., all duties in connection with the business' management), (y) hotel industry, tourism and cultural, social and gastronomic activities, and (z) remaining duties and responsibilities not specifically assigned to a particular class of board members.

We own a 55% equity interest in Traylon S.A. which runs our casino operations in the Mendoza province with the remaining 45% equity interest owned by Ciesa.

In addition, we and Casino Club (through its affiliate Inverclub) and HAPSA (through various of its affiliates) each hold a 33.3% equity interest in Bingo Los Polvorines, a bingo hall located in the metropolitan area of Buenos Aires. The bingo hall is operated by a combined casino management team.

We have also entered into a UTE arrangement with Casino Club (through its affiliate MagicStar) for the operation of two bingo halls in the cities of Olavarria and Ezeiza in the province of Buenos Aires. Effective from January 1, 2015 (and with effect until late 2017), we and MagicStar each receive 50% of the profits derived from the operation of these two bingo halls. From 2018 onwards,

Casino Buenos Aires will have a 33.34% economic interest and MagicStar will have a 66.64% economic interest of these bingo halls under the terms of the UTE.

Property, Plant and Equipment

Our principal executive offices are located at Carretera de Castellar, 298, Terrassa (Barcelona), Spain, and are owned by Nortia. See “*Certain Relationships and Related Party Transactions.*” The table below sets forth our principal properties as of December 31, 2015.

<u>Location</u>	<u>Approximate Size (m²)</u>	<u>Purpose</u>
Terrassa, Spain ⁽¹⁾	5,341	Corporate Headquarters
Terrassa, Spain ⁽¹⁾	3,009	Unidesa R&D Center
Terrassa, Spain ⁽¹⁾	7,331	Unidesa Factory
Sant Cugat, Spain ⁽¹⁾	7,391	Corporate Headquarters
Valencia, Spain.....	9,013	Casino (Valencia)
Marbella, Spain.....	6,321	Casino (Marbella)
Buenos Aires, Argentina.....	6,623	Riverboat Casinos
Buenos Aires, Argentina ⁽²⁾	54,000	Administrative Support Buildings
Rosario, Argentina.....	130,000	Hotel & Casino

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

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

Employees

The number of employees employed by us as of December 31, 2013, 2014 and 2015 were 15,399, 15,988 and 16,989 respectively. Most of our employees have a permanent employment contract. The following tables set forth, as of December 31, 2015, a breakdown of our employees by the main category of activity and geographic area:

<u>Category of activity</u>	<u>Number</u>
Slots.....	2,008
Casinos.....	11,565
Bingo ⁽¹⁾	2,715
B2B.....	342
Corporate.....	359
Total	16,989

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

<u>Geographic area</u>	<u>Number</u>
Spain.....	3,867
Italy ⁽¹⁾	610
Argentina.....	4,807
Colombia.....	2,590
Panama.....	1,550
Dominican Republic.....	704
Mexico.....	1,484
Peru.....	713
Other.....	664
Total	16,989

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

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

scales are established for each position in each industry. These salary scales are usually revised annually and typically provide for increases in the salary scales in accordance with increases in the consumer price index in Spain or a slightly larger increase (usually 1% to 2%). We have a policy of meeting or exceeding the established salary scales for our employees.

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

Licenses and Trademarks

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

Environmental and Other Government Regulations

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

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

Litigation

Legal Proceedings and Claims relating to Buenos Aires Casinos

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

Litigation in connection with the casino license

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

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

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

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

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

Proceedings relating to the settlement agreement

On October 30, 2003, the City of Buenos Aires and the State Lottery of Argentina entered into a settlement agreement relating to the first legal proceeding, in which the parties agreed (i) that the State Lottery of Argentina has the regulatory authority over our casino in Buenos Aires, (ii) a method for the distribution of gaming royalties and related fees between them, and (iii) the termination of all pending litigation between them, in each case without acknowledgement by either party of any underlying rights. The settlement agreement had a four year renewable term and either the State Lottery of Argentina or the City of Buenos Aires could terminate the settlement agreement by giving notice within 120 days prior to the expiration of any four year period. On May 22, 2015, the City of Buenos Aires sent a notice to the State Lottery of Argentina indicating its intention not to extend the term of the settlement agreement after December 2015, the scheduled expiration term.

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

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

With respect to the fourth proceeding, on October 6, 2006, the Supreme Court of the City of Buenos Aires (the highest court of the City of Buenos Aires) reversed the City court's prior ruling, on procedural grounds. According to the Supreme Court of the City of Buenos Aires, the State Lottery of Argentina should have been a party (as a defendant or as a third party defendant) since the beginning of the proceedings, and the State Lottery of Argentina did not have knowledge of such proceedings until it was served with notice of the City court decision. Moreover, the Supreme Court of the City of Buenos Aires stated that had the State Lottery of Argentina been a defendant, the case would have fallen under the scope of federal jurisdiction (and not under the jurisdiction of the City court). In the event that a

new case is to be filed against the State Lottery of Argentina, the case should be filed in a Federal court.

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

Developments in the proceedings relating to the riverboat and adjacent land

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

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

On October 24, 2011, Casino Buenos Aires commenced a sixth proceeding in a Federal court against the Federal government, the State Lottery of Argentina and the City of Buenos Aires to determine the applicability of municipal turnover tax in light of the concession documents and the settlement agreement. In connection with this proceeding, on November 9, 2011, the Federal court granted an injunction pursuant to which the City of Buenos Aires was ordered to abstain from issuing any administrative decision or taking any action to collect municipal turnover tax in relation to the activities of Casino Buenos Aires in the *Estrella de la Fortuna* and *Princess* boats, until a final decision was made in relation to the lawsuit. The injunction was appealed by the City of Buenos Aires but rejected. An extraordinary appeal was similarly rejected by the Court of Appeals in December 2012. The City of Buenos Aires filed a remedy of complaint (*recurso de queja*) with the Federal Supreme Court, which was rejected in September 2013. With respect to the main proceeding, the State Lottery of Argentina answered the complaint. The court file was then sent to a City of Buenos Aires lower court that claimed jurisdiction on the case, which was contested by Casino Buenos Aires. On February 2, 2014 a Federal court of appeals granted jurisdiction to the lower Federal court. On June 4, 2015 the lower Federal court rejected a request from the City of Buenos Aires to reverse the injunction. The City of Buenos Aires filed an appeal and a subsequent extraordinary appeal against the June 4, 2015 decision, but both were denied. On June 17, 2015 the Federal government answered the complaint in the main proceeding.

In a connected proceeding, Casino Buenos Aires obtained an injunction that ordered the City of Buenos Aires to abstain from issuing any administrative decision or taking any action that might

imply the exercise of police power or administrative power over the main and accessory activities carried out by the Casino Buenos Aires—Ciesa UTE. The City of Buenos Aires and the State Lottery appealed the injunction and the Supreme Court reversed it in November 2015, Casino Buenos Aires challenged that decision directly at the Supreme Court, but the challenge was denied.

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

Amendment to the Settlement Agreement

In December 2013, the City of Buenos Aires and the State Lottery of Argentina entered into an amendment to the settlement agreement. Subject to the provisions of the settlement agreement, Casino Buenos Aires undertook to pay a special and supplementary fee to the State Lottery of Argentina assigned to the City of Buenos Aires, provided certain conditions were satisfied. The parties agreed that by receipt of the amounts set forth in the amendment the City of Buenos Aires would relinquish all claims related to the payment of the municipal turnover tax and any other specific taxation on gaming activities conducted by the casinos. The amount payable under the monthly fee was determined based on a formula set forth in the settlement amendment. The effectiveness of the amendment was subject to the approval of the board of directors of the State Lottery and the Institute of Gaming of the City of Buenos Aires and the ratification of the legislature of the City of Buenos Aires, the shareholders of the State Lottery and the National Executive Branch.

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

Casino Buenos Aires undertook to pay the special and supplementary fee subject to the following conditions, which were part to Annex I of the amendment: (i) that the percentage of the fee be fixed at 3.0% of the net result of the formula detailed therein; (ii) that the receipt of the fee under the amendment would extinguish claims by the City of Buenos Aires related to the payment of the municipal turnover tax and any other specific taxation on their gaming activities; and (iii) that Casino Buenos Aires reserved the right to cancel and automatically interrupt the payment of the special and supplementary cannon-if the City of Buenos Aires intended to claim or attempted to tax with any other tax the operations relating to games of chance carried out in the riverboat casinos, or carry out actions that could harm the gaming operations or put at risk their continuity.

On December 16, 2013, the amendment to the settlement agreement was challenged as unconstitutional by an individual citizen in a City of Buenos Aires court. In conjunction with his filing, the individual sought to enjoin the City from executing the provisions of the amendment extinguishing the City's tax claims over Casino Buenos Aires as well as the provisions permitting the State Lottery of

Argentina to rescind the settlement agreement in the event the City of Buenos Aires seeks to assert taxing authority over Casino Buenos Aires. On December 19, 2013, the court granted the injunction and suspended the implementation of the amendment's provisions. The City of Buenos Aires appealed the injunction and on August 15, 2014, the Court of Appeals of the City of Buenos Aires revoked the decision and declared the proceedings null and void on procedural grounds, ruling that since the State Lottery of Argentina was not party to the proceedings its right of defence had been breached. The citizen subsequently filed an appeal ("*Recurso de Inconstitucionalidad*") which was rejected by the Court of Appeals of the City of Buenos Aires on October 20, 2014. The proceedings were sent to the Supreme Court of Argentina due to a jurisdictional controversy between the court of the City of Buenos Aires and a federal court which had declared exclusive jurisdiction over any controversy relating to the settlement agreement. In November 2015, the Supreme Court of Argentina awarded the jurisdiction to the federal court.

On November 4, 2014 the Institute of Gaming of the City of Buenos Aires requested the State Lottery of Argentina to arrange for the ratification of the settlement agreement by the National Executive Branch and to commence payments of the special and supplementary fee. In response, the State Lottery requested Casino Buenos Aires to begin to pay to the State Lottery of Argentina the special and supplementary fees under the terms of the amendment to the settlement agreement. Casino Buenos Aires paid the State Lottery of Argentina approximately Argentine Peso 63 million which represented the special and supplementary fees payable from January 2014 to April 2015. On May 2015, Casino Buenos Aires informed the State Lottery of Argentina that it would immediately stop such payments because of the expected termination of the settlement agreement in December 2015 (i.e., due to the notice sent by the City of Buenos Aires to the State Lottery sent on May 22, 2015). Casino Buenos Aires explained to the State Lottery that, given the remaining time left for the settlement agreement and since the amendment to the settlement agreement had never been effective due to lack of ratification by the National Executive Branch of such amendment, it would not be possible to recover the monies paid as special and supplementary fees and that such funds should be returned. Therefore, Casino Buenos Aires requested that all amounts paid as special and supplementary fees be applied as payments towards amounts that, according to the settlement agreement, the City of Buenos Aires is entitled to receive.

We are not aware of any new legal proceedings initiated by the City of Buenos Aires challenging the validity of our license or the State Lottery of Argentina's regulatory authority over our casinos in Buenos Aires, or that would otherwise interfere with its operation. We believe we may be able to prevent future interferences from the City of Buenos Aires with the temporary restraining orders issued at our request and currently in force, or by requesting new restraining orders in the future. However, we cannot assure you that any such temporary restraining orders will be granted or enforced.

Claims for Municipal Turnover Tax

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

Criminal proceedings against former officer

On October 15, 1999, four members of Congress made a criminal claim in an Argentine Federal Criminal Court based on the alleged smuggling of the riverboat on which our casino in Buenos Aires is operating. The alleged smuggling relates to the payment of certain customs taxes in connection with the importation of the riverboat, which were already satisfied by Casino Buenos Aires. A criminal

case was initiated against Mr. Sánchez Uroz, former Chairman of Casino Buenos Aires, other directors and employees of the casino and public officers of the Argentine Federal Custom Authority. Casino Buenos Aires, however, was never accused of any wrongdoing. All charges were dismissed against all parties at such time. On April 21, 2004, an Argentine court issued an order dismissing the charges against Mr. Sánchez Uroz, which decision was appealed by the prosecutor. On July 5, 2004, the Court of Appeals affirmed the ruling of the Argentine court. Both the prosecutor and the Argentine Federal Custom Authority appealed this decision of the Court of Appeals. Upon appeal, on April 12, 2005, the Argentine Court of Cassation revoked the decision of the Court of Appeals to dismiss the case on the grounds that the Court of Appeals lacked sufficient grounds because certain evidence had not been duly considered. The Court of Appeals reviewed its previous dismissal of the case and on June 21, 2005, confirmed the dismissal based on additional arguments that convinced the Court that there is insufficient evidence to prosecute Mr Sánchez Uroz. The decision of the Court of Appeals has not been appealed to the Court of Cassation, which made the court's decision a final declaration.

Settlement of claims by Italian judicial body and regulator

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

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

CdC Proceedings

In the fall of 2013, Cirsa Italia sought a settlement under recently enacted Italian legislation intended to expedite the resolution of disputes over damages with the Italian treasury in order to terminate the litigation with the CdC which had been ongoing since 2007. On October 31, 2013, the CdC accepted our settlement proposal. Under the settlement, we agreed to pay a total of €37.5 million, which included a settlement amount of €36 million (representing 30% of the disputed fine) and €1.5 million in interest. Final payment to the CdC was made by Cirsa on November 15, 2013.

In its decision No. 50 published on February 7, 2014, the CdC confirmed that Cirsa Italia (and other Italian network operators which entered into settlement agreements with the CdC) had settled the CdC proceedings and declared that such proceedings were finished.

AAMS Proceedings

Over the course of its litigation with the AAMS, Cirsa has already dismissed three of the four infractions alleged by the AAMS. On February 20, 2012, the AAMS notified Cirsa Italia of its determination that Cirsa was liable for payment of €10.2 million in regards to the fourth alleged violation. We filed an appeal against the determination of AAMS on April 15, 2012 on the substantive legal grounds which were used to set aside the first three alleged violations, as well as on the basis that, the proposed penalty was improperly calculated. In particular, we believed that the basis on which the penalty has been calculated (in basis points) encompassed not only the amounts due to Cirsa Italia in its capacity as concessionaire and manager of the network, but it also improperly included the amounts due to Cirsa Italia as operator of the network. On May 10, 2012, the TAR suspended the effectiveness of the fourth penalty as a matter of law pending a determination by the court on the merits of the case. The hearing to consider the merits of the case was held on February 20, 2013 and on June 17, 2013, the TAR annulled the fourth penalty. This ruling was appealed by AAMS on January 21, 2014. The

hearing date for the appeal was set for May 26, 2014. With decision no. 5501 of December 3, 2015, the CDS confirmed the annulment of the fourth penalty, affirming that Cirsa was not in breach of the provisions of the concession allowing Cirsa to act as network operators of AWP in Italy. The CDS decision is appealable before the Court of Cassation only on grounds of violation of court jurisdiction. The term for appeal is (i) 60 days from the notification of the CDS decision by one of the parties to the others, or (ii) 6 months if the CDS decision is not notified. The CDS decision has not been notified. Therefore the 6-month term for appeal has not elapsed as at the date of this annual report. As of the date of this annual report, we are not aware of any appeal against the CDS decision.

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. 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.

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.

8. REGULATION

European Union

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

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

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

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

Spain

Traditional Gaming

The traditional private gaming sector (where physical presence is a requirement) in Spain was legalized in 1977. Initially, the Spanish national government regulated the traditional private gaming sector (slot machines, bingo halls and casinos) through national regulations applicable to the entire country. The Spanish Constitution allowed the Spanish Autonomous Regions (each, a “Region” and together, the “Regions”), to regulate traditional gaming activities within the scope of their territory, as long as they did not invade the powers reserved to the State by the Spanish Constitution. Therefore, in Spain traditional gaming is generally regulated at a regional level, and where no regional legislation exists, exists but is not sufficient or the game covers more than one Region, the national legislation applies. At present, most of the Regions have passed extensive legislation governing traditional private gaming, including the granting of the relevant operating licenses and authorizations, tax measures and

the monitoring of each type of private game. Additionally, the Regions can regulate the public traditional gaming market (lotteries) within their own territorial areas. Regulation of the traditional private gaming market is similar across each of the Regions. National laws and regulations on traditional private gaming, however, exist and are applicable in Regions under certain circumstances, as explained above. Certain residual responsibilities, such as assistance with standardization of slot machines and collection of industry statistical information, are within the purview of the Spanish Gaming Authority (*Dirección General de Ordenación del Juego*).

Any changes in the regulatory scheme in Spain or in any other jurisdiction in which we operate may have an adverse effect on our business. See “*Risk Factors—Risks Relating to the Gaming Industry and Our Business—The gaming industry is subject to extensive regulation and licensing requirements and our business may be adversely affected by our inability to comply with these extensive regulation and licensing requirements, regulatory changes and increases in the taxation of gaming.*”

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

In addition to gaming and gaming taxes legislation, gaming operators and activities are subject to other legislation, governing, among other things, environmental, zoning, publicity and protection of minors matters. For instance, as a consequence of zoning and environmental legislation, gaming operators are obliged to obtain the relevant licenses from the local authorities of the city where the activities are carried out, in addition to the gaming sector authorizations described in this section. On anti-money laundering and terrorism prevention, Spain approved in 2014 a piece of regulation establishing specific measures related to payment of prices 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 20 May 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 shall 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.

General

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

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

Slot Machines

Slot machine manufacturers, distributors and operators, as well as others engaged in the slot machines business, must comply with laws and regulations that govern all aspects of slot machines,

including the physical characteristics of the slot machines, amounts wagered, prize payout statistics and locations where each type of slot machine may be placed. In certain Regions, a transfer of ownership interest in slot machine manufacturers and distributors is subject to prior authorization by, or prior notification to, the relevant Region. Regulations generally distinguish among three types of slot machines as described below:

- *Amusement-only Slot Machines (known in the Spanish gaming industry as Type A slot machines).* These are slot machines of mere leisure or amusement and they are limited to giving the player a certain length of playing time in exchange for the price of the game (or in certain Regions and under certain circumstances, a prize-in-kind). Amusement-only slot machines cannot give the player any kind of cash, chips or other type of prize that is exchangeable for cash or other items. Generally, amusement-only slot machines may be placed within bars, cafés, restaurants, arcades and sites that provide amusement-only slot machine entertainment. Possible locations include hotels, camp grounds, cruise ships, amusement centers, gaming halls, family entertainment centers, bingo halls and casinos.
- *Amusement-with-prize Slot Machines (known in the Spanish gaming industry as Type B slot machines).* These slot machines are amusement-with-prize slot machines that, in exchange for the price of a game, give the player a certain length of playing time, and in accordance with the game program, reward the player with a cash prize. Amusement-with-prize slot machines are subject to regulatory approval in each Region in which they are sold. The regulations typically provide that, among other things, the slot machine must have a maximum wager of €0.20 (although all Regions allow “triple bet” and “five times bet” slot machines, which provide that in certain circumstances up to €1 may be wagered, must have a maximum prize of 400 to 500 times the price of the wager (depending on the Region and must have a minimum payout of at least 70% (higher in certain Regions) of the amount wagered by players. Type B slot machines may be installed in gaming halls, certain areas of bingo halls, certain bars and restaurants and casinos. Certain Regions limit the number of amusement with prize slot machines that may be authorized. Video Type B slot machines are permitted throughout Spain.
- *Casino-type Slot Machines (known in the Spanish gaming industry as Type C slot machines).* Casino-type slot machines offer the player, in exchange for the price of the game, a certain length of playing time and, eventually, a prize that will always depend on chance. The main characteristics of Type C slot machines are: (i) in practice, the regulators allow higher maximum wagers (up to €9), and maximum prizes of up to two thousand times the value of the wager, excluding accruing jackpots or other special payouts, (ii) the minimum payout is required to be at least 80%. In Spain, only casinos may own and operate casino-style slot machines. For a discussion on the regulations regarding the operation of casinos and taxation of casino-style slot machines, see “—Casinos.”
- *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 certain Regions (Cantabria, Castilla y León and Madrid). The regulations typically provide that, among other things, the maximum price of the game is €1 and the maximum value of the prize is generally ten 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 (known in some Regions (such as Castilla y León) as Type E slot machines and in other Regions (such as La Rioja) as Type D slot machines).* 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 €0.20 (simultaneous wagers are allowed in each

game up to €6.00). The minimum payout is required to be at least 80%. Generally, the maximum value of the prize in gaming salons is €18,000 while in bingo and casino halls the maximum value is €30,000.

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

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

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

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

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

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

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

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

Casinos

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

proposal best matches the terms and conditions of the authorization that Region intends to grant. Generally, only a limited number of casinos may be authorized within a Region.

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

The Region of Galicia has recently approved a new Regulation on casinos that also applies to existing authorised 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, prior to obtaining the relevant authorizations, to install and operate one additional hall (as appendix) located outside the premises of the main casino, provided that the relevant requirements are fulfilled. 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 Centres (*Centros Integrados de Desarrollo*) and Touristic Entertainment Centres (*Centros Recreativos Turísticos*) 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 Centres. At present, no casinos have been authorized to operate in any Integrated Development Centre in Madrid or in a Touristic Entertainment Centre in Catalonia.

Bingo Halls

In some Regions, authorizations to establish and operate bingo halls are only granted to charitable, cultural or sporting institutions and hotels. These institutions usually enter into operating

agreements with gaming companies that actually manage the bingo halls. In other Regions, an authorization may be awarded either to such institutions or directly to a gaming company which intends to establish and operate a bingo hall. In either case, a company or other entity intending to establish and operate a bingo hall must satisfy several requirements in order to obtain the relevant authorization. In the case of companies, amongst other requirements, they must have valid corporate status under Spanish law in order to be authorized to establish and operate a bingo hall. Such companies also must have a fully subscribed and paid in share capital in an amount that varies depending on the Region. In addition, the shareholders of record and directors of a bingo company must not have been convicted of a criminal offense. Furthermore, in some Regions (for example, in Aragon, Andalusia and Catalonia) neither an individual nor a legal entity is permitted to be a shareholder in more than a certain limited number of bingo hall companies. Other shareholding restrictions are imposed on directors of bingo hall companies in some Regions. Additionally, in other Regions, such as in Catalonia or Galicia, a company is not allowed to hold more than a certain limited number of bingo halls within the Region.

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

Bingo halls are subject to a number of regulations relating to types of bingo games, location, size and opening hours of the bingo hall, the activities at the bingo hall and the activities of employees. The required traditional bingo card price ranges from €1 to €10. Generally, there is a required minimum payout from 56% to 71%, depending on the Region, 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 are not permitted to be placed in bingo halls but only within casinos. Although the exact number varies by Region, generally, the average number of amusement-with-prize slot machines permitted in a bingo hall is one slot machine for every 50 seats according to the capacity of the bingo hall (approximately 10 slot machines), except, among others, Andalusia, which only allows nine amusement-with-prize slot machines, and La Rioja, which only allows five amusement with prize slot machines. Bingo companies are typically able to obtain the necessary authorizations to operate the stipulated number of amusement-with-prize slot machines.

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

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

Arcades and Gaming Halls

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

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

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.

On-Line Gaming

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

The Gaming Act aims, among other things, to encourage a varied and duly dimensioned gaming market in Spain, which allows for third parties to provide State-wide games (other than lottery) by means of electronic communication, subject to State control in order to protect the different interests involved and preserve public order. With respect to non-occasional lottery games, the Gaming Act designates the National Lottery Operator (*Sociedad Estatal de Loterías y Apuestas del Estado*) and the National Organization of the Blind (*Organización Nacional de Ciegos Españoles*) as the only operators authorized to operate such games on a national basis in Spain. The Gaming Act has been implemented with the approval of different regulations, including, amongst others, those related to licensing by Royal Decree 1614/2011 of 14 November, which develops the Gaming Act with respect to licenses, authorizations and gaming registers (*Real Decreto 1614/2011, de 14 de noviembre, por el que se*

desarrolla la Ley 13/2011, de 27 de mayo, de regulación del juego, en lo relativo a licencias, autorizaciones y registros del juego), the technical aspects of gaming activities by Royal Decree 1613/2011 of 14 November, which develops the Gaming Act with regard to the technical requirements of gaming activities (*Real Decreto 1613/2011, de 14 de noviembre, por el que se desarrolla la Ley 13/2011, de 27 de mayo, de regulación del juego, en lo relativo a los requisitos técnicos de las actividades de juego*) and those governing various types of games (including, among others, horse betting, sports betting, poker, black jack, bingo, roulette, slots machines and crossed betting). Non-regulated games are prohibited.

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

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

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

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

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

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

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

On June 1, 2012 two general licenses, allowing for the exploitation of betting activities and other games (as defined in the Gaming Act), and six specific licenses, allowing for the exploitation of poker, roulette, sports betting, black jack, bingo and “*punto y banca*”, were granted to Cirsa Digital, S.A.U. by the Spanish Gaming Authority, and duly registered in the General Gaming Registry on June 14, 2012. These licenses also include the authorization to engage in advertising and promotional activities related to such games. One of our competitors, Codere, challenged the granting of these eight licenses to Cirsa Digital S.A.U. before the High Court of Justice of Madrid. In January 2013 Codere withdrew the action and on February 4, 2013, the High Court of Justice of Madrid acknowledged the withdrawal and closed the judicial procedure.

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

On October 29, 2014, the Ministry of Finance and Public Administration issued the Order HAP/1995/2014 adopting the terms governing the call for the granting of general licenses to operate the gaming activities under the Gaming Act, in particular “bets”, “quiz” (*concurros*) and “other games”. As a result, a call process for the granting of general licenses to conduct and operate gaming activities took place from November 1, 2014 to December 9, 2014. According to the information made available by the Gaming General Directorate, 12 new operators applied for a total of 20 general licenses (9 licenses in the “bets” modality and 11 licenses in the “other games” modality) and 32 singular licenses linked to those modalities during the call process. As a result of this process, the Gaming General Directorate granted 24 general licenses (18 of them to 10 new operators) and singular licenses linked to the general licenses granted.

The authorization and organization of games, raffles, contests, bets games and other gaming activities provided on a national basis in Spain are subject to the new gaming tax established under the Gaming Act. In general terms, the new gaming tax is based on applying fixed tax rates ranging from 15.0% to 25.0%, depending on the gaming activity, to the relevant game’s gross revenue (in case of mutual bets, raffles and contests) or the relevant game’s net revenue (in case of bets with consideration or other games). In addition to the gaming tax, the Gaming Act also establishes a gaming duty, which seeks to cover costs of regulatory activities of the gaming authority over the gaming activities undertaken by gaming operators. As a general rule, such gaming duty is equal to 0.075% of the gross revenue of the relevant game and is paid on December 31st of each year. The Gaming Act establishes

that the General Budget Act for the relevant year may set the percentage of gaming duty for that year. The General Budget Act for 2015 has not amended this 0.075% percentage for 2016.

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).

Republic of Argentina

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

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

To settle the dispute, the City of Buenos Aires and the State Lottery of Argentina executed an agreement on October 30, 2003 to determine the jurisdiction of the parties in connection with gaming activities during the term of the agreement, presumably within the limits of the City of Buenos Aires and areas that have access only through the City of Buenos Aires. The settlement agreement expired in December, 2015. See “*Risk Factors—Risks Relating to the Gaming Industry and Our Business*” and “*Business—Litigation*.”

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

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

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

Republic of Panama

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

In February 1998, slot machines (broadly defined by Panamanian regulations as slot machines that register credits on a ticket, or by comparable means, as a measure of prizes or money won by the user which are redeemed) were re- classified as amusement- only slot machines and the respective authorizations for the operation of such slot machines, as granted by the Gaming Control Board, were declared valid for 20 years from their respective authorization dates. Each company that had been authorized by the Gaming Control Board to conduct gaming operations prior to February 1998 was permitted to only operate the number of slot machines authorized by the Gaming Control Board.

In Panama, we operate a traditional casino and electronic casinos. During the second half of 2009, there were a number of legislative changes and regulatory developments in the gaming industry in Panama, which (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, 2015, Gaming & Services has 28 licenses to operate electronic casinos in Panama. The majority of said licenses expire in 2033, with the exception of one license that expires in 2034 and another license that expires in 2035. Gaming & Services directly operates 25 of the 28 electronic casinos in Panama, and the other three electronic casinos are operated by other Cirsa subsidiaries. Ancon Entertainment, Inc (50.1% owned by Cirsa International Gaming Corp.) 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 International Gaming Corp.), 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 28 electronic casinos, 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 recent years we renewed our electronic casino licenses in Panama, extending the expiration date of the licenses to 2033 for 26 of the licenses, 2034 for one of the licenses and 2035 for another one 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 2006, our subsidiary, Gaming & Services, and Luna Brillante S.A., which holds an ownership interest in the group that owns the hotel and shopping mall *Multicentro*, entered into a joint venture and formed Multicasino S.A. Multicasino was issued a license by the Gaming Control Board permitting it to operate a casino in the *Multicentro* shopping mall located adjacent to the hotel for 20 years.

Taxation

Gaming companies generally must pay a previously established minimum amount to the Gaming Control Board or a 10% tax on their respective gross revenue, whichever is greater. The tax rate for slot machines in electronic casinos and traditional casinos is 18% monthly. The tax rate for the tables in traditional casinos is 12% monthly.

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 US\$300. Before the adoption of the 5.5% Selective Excise Tax, gaming prizes below US\$300 were exempt from the excise tax.

Dominican Republic

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

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 4142 of 2011 which is responsible for the administration, operation and regulation of the national gaming sector. COLJUEGOS commenced operations on April 17, 2012 and replaced *Empresa Territorial para La Salud—ETESA en Liquidación* (“ETESA”), which was liquidated by Decrees 175 of 2010, 4816 of 2010 and 4961 of 2011 issued by the Colombian government. It was also determined by Decree 4142 of 2011, that all existing enforceable contracts and agreements entered into by ETESA (including our concession agreements) would continue with COLJUEGOS under the same terms and conditions.

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

As of January 1, 2012, the National Directorate of Taxes and Customs, the *Dirección de Impuestos y Aduanas Nacionales de Colombia* was responsible for the collection of gaming taxes and administrative duties payable by gaming operators but in actuality, COLJUEGOS has assumed this function since it entered into operation. Currently, gaming taxes are levied at a fixed rate per month in the range of approximately \$100 to \$148 per slot machine (depending on the value of the bet) and \$1,320 per casino table (e.g. black jack, poker, baccarat, craps and roulette). Administrative duties are

levied at 1% of such payable gaming taxes. Following the mandated interconnection of all slot machines to the gaming authority's central system for purposes of monitoring gross revenues, gaming taxes will be levied at the higher of the aforesaid fixed rates and 12% of the gross revenues less prize payouts. Colombian authorities were required to issue regulations with respect to the new gaming tax regime and such interconnection and to implement the interconnection by July 12, 2012, though this date was further extended. As of the date hereof, the interconnection of all slot machines to the central system has not yet been implemented. The new regime also establishes penalties for illegal gaming activities.

A corporate income tax of 25%, plus an additional income tax "for equity" (the "CREE Tax") at a rate of 9% is levied on all corporate profits. Per modifications introduced by Law 1747, 2014, the rate for the CREE Tax will have a surcharge of 5% for 2015 (for a 14% real rate), 6% for 2016 (for a 15% real rate), 8% for 2017 (for a 17% real rate) and 9% for 2018 (for a 18% real rate). No increases on the CREE Tax have been established for 2019.

Pursuant to a Resolution issued by the Colombian Gaming Supervisory Body (Coljuegos) in July 2014 and with effect from October 2015, slots machines are obliged to be connected online and the gaming tax is amended to reflect the higher of (i) a flat tax based on the number of gaming machines and (ii) 12% of gross winnings. The Resolution establishes a timeline divided in three stages to execute the online connection. This calendar has changed recently and the new calendar applicable is October 1, 2015 for the first 30%, March 31, 2016 for the second 30% and 100% connection on September 30, 2016.

Italy

We primarily operate in the Italian slot machines and video lottery terminal (VLT) markets. We also have minority interests in 12 bingo halls in Italy

The Italian gaming regulatory authority is the *Amministrazione Monopoli di Stato*, a division of the *Agenzia delle Dogane e dei Monopoli* (the "AAMS").

AAMS 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 will be authorized to operate VLTs and/or slot machines. In accordance with the abovementioned decree, the applicant must hold (i) the relevant license referring to the gaming machines as provided by Royal Decree no. 773 of June 18, 1931 (as subsequently integrated and amended), having a validity equal to the period of registration; (ii) the anti-mafia certificate in compliance with Law No. 575 of May 31, 1975; and, (iii) a deposit receipt of €150. In addition, the applicant must communicate if it holds any other licenses issued by the AAMS. The decree also establishes certain rules governing any violations of law by the applicant.

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 AWP 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 AAMS on January 15, 2015. The AAMS 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 AAMS 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 AAMS 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 AAMS Determination, Cirsa Italia amended or renegotiated its arrangements 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 sum, Cirsa Italia paid €17.9 million of the AAMS Determination during 2015 (which amount includes contributions from site operators and partners).

Although Cirsa Italia paid €17.9 million of the AAMS Determination during 2015, Cirsa Italia (along with a number of other gaming concessionaires) is currently challenging the AAMS Determination. Cirsa Italia filed a challenge of the AAMS Determination for the full €19.8 million before the Regional Administrative Court of Lazio, asking the Court to stay the effects of the AAMS Determination until a decision of the case on the merits was made. The hearing to discuss the interim suspension of the AAMS Determination was held on April 1, 2015. The Court decided to adjudicate our challenge on July 1, 2015. On December 16, 2015, following the July 1, 2015 hearing and subsequent petitions in October 2015, the TAR issued a new order, requesting the Italian Constitutional Court confirm the constitutionality of these provisions of the 2015 Italian Budget Law. As at the date of this annual report, the Constitutional Court has not set the date for the hearing of the case.

The 2016 Italian Stability Law clarified that concessionaires and other AWP slot and VLT operators should contribute proportionally to the payment of the AAMS assessed obligations on the basis of the relevant contractual agreements. This provision excluded concessionaires (such as Cirsa Italia) from liability from the payment of the tax for AWP and VLT site operators which did not pay their share of the tax. Consequently, as of the date of this annual report, certain of our partner operators have €1.9 million of assessed obligations for 2015 outstanding. Cirsa Italia has no obligation to fund this shortfall. Cirsa Italia communicated to the AAMS the names of the site operators that have to pay to Cirsa Italia their relevant shares of the 2015 Italian Budget Law tax. The 2016 Italian Stability Law also abrogated the provisions of the 2015 Italian Budget Law that had introduced this new tax for the concessionaires and this obligation is not longer in effect.

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%) starting from January 1, 2016.

The 2016 Italian Stability Law also increased the gaming turnover (PREU) tax for VLTs to 5.5% (from 5.0%) starting from January 1, 2016.

The 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).

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, if 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.

Slot Machines

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

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

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

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

The AAMS has awarded a series of concessions to slot machine companies to act as network system operators for slot machines in Italy.

In August 2011, the AAMS called a tender for the award of new concessions to act as a network system operator for, *inter alia*, slot machines and VLTs. On December 23, 2011, 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 AAMS adopted a series of new gaming regulations that, among other things, permitted the use of a new type of slot machine, reduced the amount of gaming turnover (PREU) tax assessed on amounts wagered (from 13.5% to 12%), changed the pay-out and increased the price per game and maximum prize size. Another separate tax assessed by the AAMS on amounts wagered increased in 2007 from 0.3% to 0.8%. The gaming turnover (PREU) tax on slot machines has subsequently increased. Most recently, the 2016 Italian Stability Law has increased the gaming turnover (PREU) tax from 13% to 17.5%. Under the current regulatory framework, no less than 70% of wagers must be paid to players (a decrease from 75% of wagers that was applicable in 2015).

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

Video Lottery Terminals

In August 2009, the Italian government adopted Law no. 102 of August 3, 2009. The law provided for the extension for a period of nine years, until October 31, 2019, of the concessions of the ten existing network system operators for slot machines in Italy, to become effective at the time these operators became authorized to operate VLTs. The law also established the technical and economic requirements for the ten network system operators to request authorization to install VLTs and to act as network system operators for VLTs. 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 that expires in 2022.

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

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

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

A number of local authorities in Italy have 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 an adverse impact on the business or results of operations of Cirsa Italia.

Effective as of January 1, 2016, the turnover tax ("PREU") levied on the amount wagered on VLTs is 5.5% (an increase from 5.0%), plus an additional 6% 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 AAMS of 0.8% of the amounts wagered.

Bingo Halls

We also have minority interests in 12 bingo halls in Italy. Bingo halls have been permitted to operate in Italy since 2000. In Italy, 20% of the face value of the bingo card is required to be paid to the Italian tax authorities and 3.8% is required to be paid to the AAMS, however, since November 1, 2009, under a pilot scheme implemented by the AAMS, such percentages are reduced respectively to 11%—payable to Italian tax authorities—and 1%—payable to the AAMS. Regulations require that 70% of the face value of the bingo be dedicated to prize payments.

The 2016 Italian Stability Law provides for the renewal of all of Italy's 210 bingo concessions by means of a public tender process. The results of the public tender will impact the nature and number of slot machines that bingo concessionaires will be able to operate at their bingo halls under their concessions.

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.

Anti-money Laundering Regulations

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

The Anti-Mafia Code

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

9. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview

We are one of the leading gaming companies in Spain, Italy, as well as in several countries in Latin America (with a focus on Argentina, Panama, Colombia, Peru, Mexico and Costa Rica), engaged in the operation of slot machines, casinos and bingo halls. We also manufacture slot machines for the Spanish market. We operate 75,309 gaming machines, 133 casinos, 70 bingo halls, 650 gaming tables, 1,450 betting locations and 120 arcades.

Accounting and Auditing Principles

In this annual report, we have presented our audited consolidated financial statements for the years ended December 31, 2015, 2014 and 2013. These consolidated financial statements are prepared in accordance with IFRS—EU.

Our auditors, Ernst & Young S.L. and Cortés & Pérez Auditores y Asesores Asociados, S.L., independent auditors, have audited our financial statements in accordance with prevailing audit regulations in Spain and issued unqualified audit opinions for our audited financial statements for each of the years ended December 31, 2015, 2014 and 2013.

For a description of certain changes to IFRS standards and interpretations that we have adopted in our consolidated financial statements, see note 2.3 to our audited consolidated financial statements for the year ended December 31, 2015.

Segment Reporting

Cirsa is 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 operating revenues, net operating revenues, EBIT, EBITDA and net result for each of our business divisions. With effect from January 1, 2014, On-Line Gaming (which became a business division in the third quarter of 2012), was discontinued as a business segment due to the sale of Cirsa Digital, S.A. to *Sportium*, our joint venture with Ladbrokes PLC. The results of *Sportium* are consolidated under the equity method and recorded in “financial results”.

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 audited consolidated financial statements for the year ended December 31, 2015.

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

For the year ended December 31, 2013, we also present Adjusted EBITDA for the Group and the Slots Division, which is defined as EBITDA before the CdC Settlement Payment.

Consolidation Method and Adoption of IFRS 11

As described in our audited consolidated financial statements for the year ended December 31, 2013, prior to the adoption of IFRS “Joint Arrangements” with effect from January 1, 2014, we used

the full consolidation method for subsidiaries, the proportional consolidation method for jointly-controlled companies and the equity method for affiliated companies.

We own less than 100% of a number of our material subsidiaries. Prior to the adoption of IFRS 11, we used the proportional consolidation method for our companies in which we owned a 50.0% interest, which included *Casino de Rosario* and the *Majestic Casino* in Panama. The adoption of IFRS 11 did not affect the reporting of the results of operations of our Colombian casino business, the Winner Group, which represented 13.6% of our consolidated EBITDA (€52.7 million) for the year ended December 31, 2015, and in which we own a 50.01% interest. We fully consolidate the results of operations (and related indebtedness) of the Winner Group.

As required by IFRS, we have adopted IFRS 11 “Joint Arrangements” for periods beginning on or after January 1, 2014. IFRS 11 requires that certain joint arrangements be reclassified and accounted for using the full consolidation method or the equity method, and eliminates the use of the proportional consolidation method. The classification of the joint arrangement is determined by the rights and obligations of the parties arising under the arrangement rather than the legal form of the arrangement. As a result, we now account for joint arrangements as follows:

- *Full consolidation method:* companies where Cirsa has the right to control the significant activities are fully consolidated (100%) in our financial statements regardless of the equity ownership.
- *Equity method:* significant activities are not consolidated in our financial statements regardless of the equity ownership. The net profit of such companies is recorded in the “financial results” line of the profit and loss statement.

As a result of the application of IFRS 11, our restated historic results for the year ended December 31, 2013 exclude entirely the results of operations of certain of our casinos (in particular *Casino de Rosario* in Argentina) as our management arrangements in 2013 with our partners in these joint ventures did not support these operations’ consolidation within our results under IFRS 11. During January 2014, we and our joint venture partners modified the management agreements for *Casino de Rosario* and the *Majestic Casino* in Panama (both in which we hold a 50% ownership interest), as a result of which Cirsa has the right to control the significant activities of those entities. As a consequence, with effect from January 1, 2014, we fully consolidate the results of *Casino de Rosario* and the *Majestic Casino*. During the course of 2014, we similarly modified the management arrangements for certain other smaller bingo hall and slot machines joint ventures, and fully consolidate the results of such joint ventures.

In order to enable investors to compare our financial results for periods following the year ended December 31, 2013 with prior periods, we have presented herein, as required by IFRS-EU, certain reclassified financial information as of and for the year ended December 31, 2013 after giving effect to IFRS 11. The comparability is limited since such reclassified financial information does not give effect to the modifications of the management arrangements for *Casino de Rosario* and *Majestic Casino* joint ventures and certain bingo hall and slot machines joint ventures implemented during 2014. All financial information presented as of and for years ended December 31, 2014 and 2015 has been presented giving effect to the adoption of IFRS 11.

For further information regarding the effects of the adoption of IFRS 11, including a reconciliation of certain financial data, see note 2.3 to our audited consolidated financial statements for the year ended December 31, 2014. The following table presents, for informational purposes, as of and for the year ended December 31, 2013, the adjustments to reported net operating revenues, Adjusted EBITDA and Total net debt made to give effect to IFRS 11.

	Year ended December 31, 2013
Adjustments for IFRS 11 Restatement	€ in millions
Net Operating Revenues	1,363.0
Net Operating Revenues from Joint Ventures.....	(202.2)
Net Operating Revenues (IFRS 11)	1,160.8
Adjusted EBITDA	338.1
EBITDA from Joint Ventures	(48.4)
Adjusted EBITDA (IFRS 11)	289.7
Net Debt as of December 31, 2013	908.5
Net debt from Joint Ventures	(31.7)
Net Debt as of December 31, 2013 (IFRS 11).....	876.8

Since the restated financial information for the year ended December 31, 2013 does not give effect to the modifications of the management arrangements that occurred during 2014, the comparability of the results of operations for the years ended December 31, 2015, 2014 with 2013 for the Group and the Casinos Division is impacted. This is particularly due to the materiality of the results of operations of *Casino de Rosario* which, for the first time, are fully consolidated during the year ended December 31, 2014. The following table presents, for informational purposes, the EBITDA contribution of *Casino de Rosario* and the Casinos Division to the Group EBITDA for the periods indicated, both on a reported basis and after giving effect to IFRS 11:

	Year ended December 31,			
	2013	2013	2014	2015
	(Pre-IFRS 11)	(IFRS 11)	(IFRS 11)	(IFRS 11)
<i>Casino de Rosario</i> EBITDA	35.0 ⁽¹⁾	— ⁽²⁾	38.1 ⁽³⁾	44.5
Casinos Division EBITDA.....	225.8	190.3	216.4	252.8
Group EBITDA.....	302.1	253.7	328.1	380.0

(1) Proportional consolidation of 50% of *Casino de Rosario* total EBITDA of €70.0 million.

(2) Equity method. *Casino de Rosario* results reported in “financial results”.

(3) Full consolidation method of 100% of *Casino de Rosario* EBITDA. EBITDA also reflects impact of 46.9% depreciation of Argentine peso against the euro during the year ended December 31, 2014.

The adjustment to total net debt as of December 31, 2013 in order to give effect to IFRS 11 primarily relates to the indebtedness of our Italian VLT joint venture, Orlando Play S.A., in which we hold a 50.0% ownership interest. The management arrangements of the joint venture were modified during 2014, and currently we fully consolidate the results of the joint venture. See “*Business—Our Divisions—Slot Divisions—Italian Slots and VLT Businesses*”.

The restatement of our financial results for the year ended December 31, 2013 to give effect to IFRS 11 also significantly impacts the presentation and comparability of our historic cash flows and capital expenditures due to the full exclusion of results of certain of our joint ventures. For example, after giving effect to IFRS 11, our net cash flows from operating activities for the year ended December 31, 2013 were € 165.4 million as compared to €204.4 million which reflects the exclusion of both our cash flows and adjustments for non cash revenues and expenses relating to our joint ventures not qualifying for consolidation under IFRS 11. The presentation of our capital expenditures for 2013 were similarly impacted and were €99.5 million after giving effect to IFRS 11 as compared to €118.1 million for the year ended December 31, 2013 due to the exclusion of certain investments made in our un consolidated joint ventures during 2013. The differences in net cash flows from operating activities and capital expenditures primarily relate to *Casino de Rosario* which, had capital expenditures of €8.9 million in the year ended December 31, 2013.

Latin American Currency Effects

Our Latin American businesses account for a significant and increasing portion of the operating revenues, EBIT and EBITDA of the Cirsa Group generally and our Casinos Division in particular. Our B2B Division also generates revenues from its electronic lottery business in Argentina. The results of operations and financial position of the Cirsa Group and our Casinos Division, in particular, have from time to time been adversely affected by currency movements. During the period under review, the currency movements that have had the most significant effect on our results of operations have been the depreciation or appreciation of the U.S. dollar (which is the functional currency in Panama), the Colombian peso and the Argentine peso against the euro. For example, in 2013 and 2014, the depreciation of the Colombian peso and the Argentine peso against the euro adversely impacted our results of operations. Conversely, the appreciation of the U.S. dollar and the Argentine peso against the euro in 2015 positively impacted 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 adversely affected our results of operations and financial condition in prior years and during 2014 and 2015. Following a sharp depreciation of the Argentine peso against the euro in 2001 and 2002 as a result of the Argentine government's adoption of a floating exchange rate for the Argentine peso in response to the economic crisis in the country, the Argentine peso has since continued to decline, albeit more gradually, 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. During most of 2015, the euro depreciated against the Argentine peso; the average exchange rate of the euro and the Argentine peso used to prepare our consolidated financial statements for the year ended December 31, 2015 was Ps. 10.43 per euro. However, during mid-December, following the relaxation of currency controls by the newly elected Argentine government, the Argentine peso depreciated significantly and as of December 31, 2015, the exchange rate was Ps. 14.20 per euro.

During 2014 and 2015, 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 the two periods decreased by 22.2%.

Due to translation effects, the depreciation of the Argentine and Colombian peso has resulted in a decrease in euro terms of the revenues of our Argentine and Colombian businesses, our Casinos 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:

One € Equals	Average Exchange Rate for				
	2011	2012	2013	2014	2015
Argentine Peso.....	5.8009	5.9183	7.3903	10.8554	10.4262
U.S. Dollar.....	1.4000	1.2932	1.3308	1.3211	1.1046
Colombian Peso.....	2,593.1075	2,326.9592	2,503.4202	2,660.4491	3,058.5028

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, and have added a total of approximately 5,800 slot machines since January 1, 2013.

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

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. We have also incurred significant costs with respect to litigation regarding our slot machine business in Italy, and made a payment of €36.0 million to the CdC in 2013 to settle certain litigation. The profitability of our Italian business has been impacted by increases in gaming taxes in 2012 and 2013 as well as increased competition in the VLT market. During 2014, the EBITDA and EBITDA margin of our Italian slot business was impacted by the change in mix of slot machines and VLTs as we acquired additional slot machines in Italy which were subject to a higher tax rate than VLTs. As described in "*Regulation—Italy*", there were a number of developments in 2014, 2015 and 2016 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 to 17.5% and on VLTs to 5.5%, as well as new regulatory changes lowering the percentage of wages payable as winnings from 75% to 70% and requiring other technical upgrades which may derive 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 AWP slots machines, as determined by the AAMS. This tax has been repealed in 2016.

Casinos

The revenues and profitability for our Casinos Division have been impacted by a variety of factors, including currency effects, the effects of acquisitions and opening new or expanded casinos, regulatory changes and location-specific factors. Our Casinos Division derives revenues primarily from gaming tables and slot machines which, in turn 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 are generated by our casinos in Latin America, principally our casinos in Argentina, Panama and Colombia, in which we have made, and continue to make, 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. We acquired a casino in Las Palmas in early 2015 and entered the adjacent market of Morocco with the acquisition of one casino in the resort city of Agadir in December 2015.

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

The performance of our Casinos Division is also affected by regulatory changes in the number of casino licenses issued, permitted slot machines per site, the minimum wager, licensing fees and taxes assessed on casinos and slot machines, as well as by systemic shifts in the regulatory framework. For example, our results of operations in Panama and for *Casino de Rosario* have been impacted by increases in gaming taxes. 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.

Due to the first-time application of IFRS 11 with effect from January 1, 2014, the financial results of *Casino de Rosario* were fully consolidated during the year ended December 31, 2014 (and are likewise fully consolidated for the year ended December 2015). This consolidation has resulted in an increase in total EBITDA of the Casinos Division, but a decrease in the Casinos Division's EBITDA margin, primarily due to the higher level of gaming taxes paid by *Casino de Rosario* as compared to our casino businesses in Panama and Colombia. The adoption of IFRS 11 did not affect the reporting of the results of operations of our Colombian casino business, the Winner Group, which represented 15.5% of our consolidated EBITDA for the year ended December 31, 2014, and in which we own a 50.01% interest. We fully consolidate the results of operations (and indebtedness) of the Winner Group.

Bingo

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

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

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

In general, the revenues and profitability of traditional bingo halls in Spain has been declining in recent years due to a variety of factors, including customer demographics, the effects of the strict smoking bans and the economic downturn. Our Spanish bingo operations have improved modestly, 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 18 bingo halls since January 1, 2011, including nine bingo halls in 2014. 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 the last three years and may record additional impairment charges in the future.

We entered the Mexican bingo hall business in 2006, and as of December 31, 2015, we operated 19 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 the regulatory regime is expected to be liberalized in the future to permit the introduction of 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.

B2B

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

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

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

On-Line Gaming

Our On-Line Gaming business division commenced operations in the third quarter of 2012. In December 2013, we sold Cirsa Digital, S.A., which operates the Spanish operations of our On-Line Gaming division to *Sportium*, our joint venture with Ladbrokes PLC. We sold CirsaCom, our Italian outline gaming company, to a third party in 2014.

With effect from January 1, 2014, the On—Line Gaming business division was discontinued as a business segment in accordance with IFRS 11. Our on-line joint venture (*Sportium*) is consolidated under the equity consolidation method, and its net results are recorded in financial results. The on-line joint venture is not expected to achieve profitability in the foreseeable future, due in part to its scale and its level of operating costs.

Principal Profit and Loss Account Items

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

Operating Revenues

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

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

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

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

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

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

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

Net Operating Revenues

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

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

Consumption

Consumption costs for our Slots Division include contractual payments to sub-operators (which are based on a profit sharing formula that varies by sub-operator). For our Bingo 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

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

Taxes on Gaming

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

Depreciation, Amortization and Impairment

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

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

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

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

Variation in Operating Provisions

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

Financial Results

Financial results comprises financial income less financial costs and expenses.

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

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

Foreign Exchange Results

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

Income Tax

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

For Spanish tax purposes, as of December 31, 2015, we have three groups that file their tax returns on a fiscal consolidated basis: one group has 13 Spanish companies, the second group has eight Spanish companies and the third group has 71 Spanish companies. As of December 31, 2015, under Spanish tax legislation, Cirsa must have owned more than 75% of the capital stock of a company at the start of the tax year in order to include the company in its tax consolidated group. Spanish companies that are not part of the fiscal consolidated group pay tax on an unconsolidated basis (unless it belongs to another fiscal group). Our non-Spanish subsidiaries are not included in the tax consolidated group and pay taxes in their local jurisdictions.

The statutory corporate tax rate in Spain during 2015 was 28%. 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 2016 is 25%.

Minority Interest

Minority interest is comprised of the results included in consolidated results for which we do not own 100%. Our minority interests are principally attributable to minority ownership interests in the Winner Group, *Casino de Rosario*, a Panamanian casino business and two Spanish slots businesses (*Juegomatic S.A.* and *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.

Results of Operations

Year ended December 31, 2015 compared to the year ended December 31, 2014

The following table sets forth, by business division, operating revenues, net operating revenues, EBIT and EBITDA for the years ended December 31, 2015 and 2014:

	Year ended December 31,		Change
	2014	2015	
	(€ in millions)		
Operating Revenues:			
Slots.....	772.5	837.8	65.4
Casinos.....	628.2	774.8	146.6
Bingo.....	170.6	203.1	32.5
B2B.....	84.1	99.0	14.9
Other ⁽¹⁾	(63.8)	(61.4)	2.4
Total.....	1,591.5	1,853.3	261.7

	Year ended December 31,		Change
	2014	2015	
	(€ in millions)		
Net Operating Revenues:			
Slots.....	544.8	596.4	51.6
Casinos.....	624.6	771.4	146.8
Bingo.....	163.6	194.0	30.4
B2B.....	84.1	99.0	14.9
Other ⁽¹⁾	(63.6)	(61.4)	2.2
Total.....	1,353.4	1,599.4	245.9

	Year ended December 31,		Change
	2014	2015	
	(€ in millions)		
EBIT:			
Slots.....	22.6	1.8	(20.8)
Casinos.....	117.6	166.9	49.3
Bingo.....	(10.5)	7.8	18.3
B2B.....	12.6	14.7	2.0
Other ⁽¹⁾	(14.0)	(15.2)	(1.2)
Total.....	128.4	176.0	47.6

	Year ended December 31,		Change
	2014	2015	
	(€ in millions)		
EBITDA:			
Slots.....	98.4	101.7	3.3
Casinos.....	216.4	252.8	36.5
Bingo.....	18.2	28.7	10.4
B2B.....	16.0	18.9	2.9
Other ⁽¹⁾	(20.9)	(22.1)	(1.2)
Total.....	328.1	380.0	51.9

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

Year ended December 31, 2015 compared to the year ended December 31, 2014

Group Results of Operations

Net Operating Revenues

Net operating revenues increased by €245.9 million, or €18.2%, to €1,599.4 million in 2015 from €1,353.4 million in 2014. The increase in net operating revenues was primarily due to growth in revenues from our casinos in Latin America (in part due to the acquisitions of casinos in Costa Rica and Peru in 2015 and 2014, respectively, as well as due to increased revenues from our Spanish and Italian slots businesses and Spanish and Mexican bingo businesses. Revenues were impacted by the positive foreign exchange effects of the depreciation of the euro against the US dollar and the Argentine peso during 2015, which were partly offset by the negative effects of the depreciation of the Colombian peso against the euro. The significant depreciation of the Argentine peso against the euro and the US dollar occurred in mid-December 2015.

EBIT

EBIT increased from €128.4 million in 2014 to €176.0 million in 2015. The growth is primarily due to improved EBIT from our Casinos and Bingo divisions, which was partly offset by the decrease in EBIT from our Slots division.

EBITDA

EBITDA increased 15.8% from €328.1 million in 2014 to €380.0 million in 2015. EBITDA margin (EBITDA as a percentage of net operating revenues) declined from 24.2% in 2014 to EBITDA margin of 23.8% in 2015.

The increase in EBITDA is primarily due to the performance of our casinos in Latin America and the modest improvement in the Bingo business in Spain. EBITDA was positively impacted by the depreciation of the euro against the US dollar and the Argentine peso during 2015, which was partly offset by the depreciation of the Colombian peso against the euro.

Financial Results

Financial results were negative €106.3 million in 2015 as compared to negative €88.8 million in 2014. Financial results in 2015 include €11.3 million of premium paid for the redemption and tender of €450 million of 2018 notes and a €4.9 million write-off of capitalized issuance costs related to the 2018 notes.

Foreign Exchange Results

Foreign exchange results were negative €3.8 million in 2015 as compared to negative €12.8 million in 2014. The difference is primarily due to less exposure to foreign currency effects in Argentina in 2015, as a significant amount of US dollar denominated debt owed to third parties related to *Casino de Rosario* was paid down in 2014.

Income Tax Expense

Income tax expense increased to €44.7 million in 2015 from € 32.0 million in 2014. The difference is primarily due to the impact of higher pre-tax income generated in Argentina and higher corporate tax rates in Colombia.

Net Profit

As a result of the foregoing, net profit, after minority interests, was negative €15.7 million in 2015 as compared to €55.9 million in 2014.

Results of Operations by Division

Slots

	Year ended		Change
	December 31,		
	2014	2015	
	(€ in millions)		
Operating Revenues	772.5	837.8	65.4
Variable rent	(227.7)	(241.5)	(13.8)
Net Operating Revenues	544.8	596.4	51.6
Consumption.....	(32.0)	(34.9)	(2.9)
Personnel expenses	(52.8)	(57.2)	(4.4)
Gaming taxes	(289.3)	(329.0)	(39.7)
External supplies and services	(72.3)	(73.5)	(1.3)
Depreciation, amortization and impairment.....	(75.8)	(99.9)	(24.1)
EBIT	22.6	1.8	(20.8)
EBITDA	98.4	101.7	3.3

Revenues. Operating revenues from our Slots Division principally represent revenues collected from our slot machines after prize payouts. Operating revenues increased by 8.5% from €772.5 million in 2014 to €837.8 million in 2015. Net operating revenues from our Slots Division represent operating revenues after variable rent payments made to site owners. Net operating revenues increased by 9.5% from €544.8 million in 2014 to €596.4 million in 2015.

In Spain, net operating revenues increased by 7.8% in 2015 as compared to 2014 despite maintaining approximately the same level of slot machines during 2015. Average revenues per unit also increased in 2015 as compared to 2014, reflecting the strengthening of the emergent recovery in 2015 of the Spanish slots business. We had 26,682 slot machines in operation in Spain as of December 31, 2015 compared to 26,678 units as of December 31, 2014.

In Italy, net operating revenues increased by 11.0% in 2015 as compared to 2014. This increase is primarily due to an increase in the number of slot machines we operate and a reduction in the number of slot machines for which we only provide third-party interconnection services. As of December 31, 2015, in Italy we had 10,691 slot machines as compared to 10,862 slot machines as of December 31, 2014, which reflects our continuing effort to optimize our slot machine portfolio by discontinuing underperforming slot machines. The number of installed VLTs was stable at 2,558 as of December 31, 2015 as compared to 2,546 at the end of 2014.

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 13.9% to €594.6 million in 2015 as compared to €522.2 million in 2014. 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 13.7% from €289.3 million in 2014 to €329.0 million in 2015. As a percentage of segment net operating revenues, gaming taxes increased to 55.2% in 2015 from 53.1% in 2014. The increase in gaming taxes as a percentage of segment net operating revenues was primarily due to higher gaming taxes in Italy. For 2015, the turnover (PREU) tax rate on slot machines increased to 13.0% from 12.6% in 2014. In addition, approximately €8.0 million of gaming taxes were recorded in 2015 related to a levy on gaming machines in Italy introduced by the 2015 Italian Budget Law (which was repealed in 2016). See “*Regulation—Italy—2015 Italian Budget Law and 2016 Italian Stability Law*”.

- *Personnel Expenses.* Personnel expenses include wages and salaries for commercial, collection and technical support employees. This expense category increased by 8.3% to €57.2 million in 2015 from €52.8 million in 2014.
- *Consumption.* Consumption expense is primarily comprised of payments to sub-operators. This expense category increased by 9.1% from €32.0 million in 2014 to €34.9 million in 2015.
- *External Supplies and Services.* This expense category increased by 1.8% from €72.3 million in 2014 to €73.5 million in 2015.
- *Depreciation, Amortization and Impairment.* Depreciation, amortization and impairment expenses increased by 31.8% from €75.8 million in 2014 to €99.9 million in 2015. The increase was primarily attributable to the increase in the number of slot machines due to acquisitions and an impairment charge of €13.1 million recorded in 2015.

EBIT. EBIT for our Slots Division decreased from €22.6 million in 2014 to €1.8 million in 2015.

EBITDA. EBITDA for our Slots Division increased by 3.3% from €98.4 million in 2014 to €101.7 million in 2015. EBITDA margin (EBITDA as a percentage of segment net operating revenue) decreased to 17.1% in 2015 as compared to 18.1% in 2014. The improvement in EBITDA of our Spanish business more than offset the decline in EBITDA of our Italian business, which decline also was the principal reason for the lower EBITDA margin in 2015.

In Spain, EBITDA increased by 9.0% to €79.6 million in 2015 from €73.0 million in 2014. This increase was due to the improvement in the performance of the existing slot business as we reduced underperforming machines and executed other cost savings measures.

EBITDA for our Italian business decreased by 13.0% to €22.1 million in 2015 as compared to €25.4 million in 2014. Higher gaming taxes impacted EBITDA for our Italian business through a combination of increased gaming turnover (PREU) tax resulting from our 11% increase in Italian slots revenues in 2015 as well as approximately €8.0 million of one-off assessed levies resulting from the 2015 Italian Budget Law. See “*Regulation—Italy—2015 Italian Budget Law and 2016 Italian Stability Law*”.

Casinos

	Year ended		Change
	December 31,		
	2014	2015	
	(€ in millions)		
Operating Revenues	628.2	774.8	146.6
Variable rent	(3.6)	(3.4)	0.2
Net Operating Revenues	624.6	771.4	146.8
Consumption	(12.1)	(16.0)	(3.9)
Personnel expenses	(131.6)	(167.2)	(35.7)
Gaming taxes	(130.6)	(172.9)	(42.3)
External supplies and services	(133.9)	(162.4)	(28.5)
Depreciation, amortization and impairment	(98.8)	(85.9)	12.9
EBIT	117.6	166.9	49.3
EBITDA	216.4	252.8	36.5

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 23.3% from €628.2 million in 2014 to €774.8 million in 2015.

Net operating revenues from our Casinos Division represent operating revenues after variable rent payments. Net operating revenues increased by 23.5% from €624.6 million in 2014 to €771.4 million in 2015. The increase in revenues is primarily due to steady organic growth in all of our markets, the contribution from acquired casinos in Costa Rica and Peru, in 2015 and 2014, respectively, and the positive foreign exchange effects of the depreciation of the euro against the US dollar and the Argentine peso during 2015. This increase was partly offset by the impact of the depreciation of the Colombian peso against the euro.

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

Costs and expenses from our casinos increased from €507.0 million in 2014 to €604.5 million in 2015. 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 21.3% to €162.4 million in 2015 from €133.9 million in 2014, generally in line with the growth in net operating revenues. As a percentage of net operating revenues, this expense category decreased to 21.1% in 2015 compared to 21.4% in 2014.
- *Gaming Taxes.* Gaming taxes increased by 32.4% to €172.9 million in 2015 as compared to €130.6 million in 2014. As a percentage of net operating revenues, this expense category increased to 22.4% in 2015 from 20.9% in 2014. The increase in gaming taxes is primarily due to higher level of payments in 2015 to the State Lottery of Argentina under the amended settlement agreement between the City of Buenos Aires and the State Lottery of Argentina and the growth in revenues (and gaming taxes) of *Casino de Rosario*. *Casino de Rosario* pays a higher level of gaming taxes overall as compared to our casino businesses in other jurisdictions. The level of gaming taxes also increased in Panama and Colombia during 2015.
- *Personnel Expenses.* Personnel expenses increased by 27.1% to €167.2 million in 2015 compared to €131.6 million in 2014 primarily as a result of the effect of inflation-driven salary increases in Argentina. As a percentage of net operating revenues, this expense category increased to 21.7% in 2015 from 21.1% in 2014.
- *Depreciation, Amortization and Impairment.* Depreciation, amortization and impairment expenses decreased to €85.9 million in 2015 as compared to €98.8 million in 2014. This decrease is primarily due to the effect of the €12.0 million impairment recorded in 2014 with respect to our electronic casinos in Panama.
- *Consumption.* Consumption costs principally include ordinary course costs such as playing cards and chips and food and beverage expenses. Consumption expenses increased to €16.0 million in 2015 from €12.1 million in 2014. As a percentage of net operating revenues, this expense category increased to 2.1% in 2015 from 1.9% in 2014.

EBIT. EBIT from our Casinos Division increased by 41.9% to €166.9 million in 2015 from €117.6 million in 2014. EBIT margin (EBIT as a percentage of segment net operating revenues) for the Casinos Division increased to 21.5% in 2015 from 18.8% in 2014.

EBITDA. EBITDA for our Casinos Division increased by 16.8% to €252.8 million in 2015 from €216.4 million in 2014. EBITDA margin (EBITDA as a percentage of segment net operating revenues) decreased to 32.8% in 2015 as compared to 34.6% in 2014. The EBITDA growth in 2015 was driven by steady organic growth in all of our markets, in particular in Argentina in relation to *Casino del Rosario*, the impact of a number of efficiency programs, the contribution from acquired casinos in Costa Rica and Peru, in 2015 and 2014, respectively, and the positive foreign exchange effects of the depreciation of the euro against the US dollar and the Argentine peso. This increase was partly offset by the impact of the depreciation of the Colombian peso against the euro, higher gaming taxes and higher personnel costs.

The decrease in EBITDA margin is primarily attributable to the improved performance of our operations in Argentina and Panama which have generally lower margins due to the higher gaming taxes in these jurisdictions relative to our other operations.

Bingo

	Year ended December 31,		Change
	2014	2015	
	(€ in millions)		
Operating Revenues	170.6	203.1	32.5
Variable rent	(7.0)	(9.1)	(2.1)
Net Operating Revenues	163.6	194.0	30.4
Consumption.....	(7.8)	(9.4)	(1.6)
Personnel expenses	(34.8)	(39.4)	(4.7)
Gaming taxes	(49.0)	(57.8)	(8.8)
External supplies and services	(53.7)	(58.7)	(4.9)
Depreciation, amortization and impairment.....	(28.7)	(20.9)	7.9
EBIT	(10.5)	7.8	18.3
EBITDA	18.2	28.7	10.4

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 19 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, 2015 and 2014:

As of December 31	2014	2015
Spain.....	39	39
Mexico.....	20	19
Italy	12	12
Total	71	70

Operating revenues from our Bingo Division increased by 19.0% from €170.6 million in 2014 to €203.1 million in 2015. Net operating revenues from our Bingo Division represent operating revenues after variable rent. Net operating revenues increased by 18.6% to €194.0 million in 2015 as compared to €163.6 million in 2014. Revenues for our Spanish bingo business were positively impacted by an increased number of visits and higher customer expenditures per visit, in part as a result of sales and marketing initiatives intended to attract more customers to our bingo halls.

Net operating revenues from our bingo halls in Mexico increased by 30.1% to €86.5 million in 2015 compared to €66.3 million in 2014.

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 6.9% from €174.1 million in 2014 to €186.2 million in 2015. The key changes in the components of segment operating expenses are as follows:

- *Gaming Taxes.* Gaming taxes increased by 17.9% to €57.8 million in 2015 from €49.0 million in 2014, generally in line with the increase in net operating revenues.
- *Personnel Expenses.* Personnel expenses are primarily comprised of the wages and salaries and employee benefits of our bingo hall staffs. Personnel expenses increased by 13.4% from €34.8 million in 2014 to €39.4 million in 2015. As a percentage of segment

net operating revenues, personnel expenses decreased from 21.3% in 2014 to 20.3% in 2015.

- *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 20.4% from €7.8 million in 2014 to €9.4 million in 2015.
- *Depreciation, Amortization and Impairment Expenses.* Depreciation, amortization and impairment expenses decreased from €28.7 million in 2014 to €20.9 million in 2015. In 2015, an impairment charge of €2.6 million was recorded compared to an impairment charge of €9.3 million in 2014. The impairment charge in 2015 was related to write-downs of goodwill related to legacy bingo hall acquisitions.
- *External Supplies and Services.* External expenses increased by 9.2% to €58.7 million in 2015 from €53.7 million in 2014.

EBIT. EBIT from our Bingo Division improved from negative €10.5 million in 2014 to €7.8 million in 2015.

EBITDA. EBITDA for our Bingo Division improved by 57.2% to €28.7 million in 2015 from €18.2 million in 2014. EBITDA margin (EBITDA as a percentage of net operating revenues) increased to 14.8% in 2015 from 11.2% in 2014. The increase in EBITDA and EBITDA margin is largely due to an increased number of visits and higher customer expenditures per visit and improved operating efficiencies, including the closure of nine bingo halls in 2014.

Our Mexican business contributed EBITDA of €22.1 million in 2015 as compared to €17.0 million in 2014. The improvement in EBITDA of our Mexican business is primarily due to the introduction of gaming tables at certain of our halls in May 2015 as well as increased attendance generally due to sales and marketing initiatives.

B2B

	Year ended December 31,		Change
	2014	2015	
	(€ in millions)		
Net Operating Revenues	84.1	99.0	14.9
Consumption	(30.2)	(40.0)	(9.8)
Personnel expenses	(18.3)	(19.2)	(0.9)
Gaming taxes	(1.4)	(1.4)	—
External supplies and services	(18.3)	(19.5)	(1.3)
Depreciation, amortization and impairment	(3.3)	(4.2)	(0.9)
EBIT	12.6	14.7	2.0
EBITDA	16.0	18.9	2.9

Revenues. The revenues of our B2B Division include revenues from sales of our slot machines and gaming kits and sales of slot machines produced by third parties by our distribution companies. Also included are revenues generated from supporting the Slots Division in Italy, lottery business in Argentina, and interlinked bingo games in Madrid, Andalusia and Catalonia. Net operating revenues from our B2B Division increased by 17.7% to €99.0 million in 2015 from €84.1 million in 2014. The improvement in net operating revenues was primarily attributable to higher sales of gaming kits and gaming network systems, as customers continue to postpone purchases of new slot machine cabinets.

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

Costs and expenses for our B2B Division increased by 18.0% from €71.5 million in 2014 to €84.3 million in 2015.

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

- *Consumption.* Consumption expenses primarily are comprised of purchases of semi-finished and finished components. Consumption expenses increased by 32.4% from €30.2 million in 2014 to €40.0 million in 2015. As a percentage of net operating revenues, this expense category increased from 35.9% in 2014 to 40.4% in 2015. The increase is primarily attributable to higher sales of gaming kits, which have proportionally higher consumption expenses as compared to slot machine cabinets.
- *External Supplies and Services.* External supplies and services expenses increased by 7.0% from €18.3 million in 2014 to €19.5 million in 2015.
- *Personnel Expenses.* Personnel expenses increased by 4.8% from €18.3 million in 2014 to €19.2 million in 2015.
- *Depreciation, Amortization and Impairment Expenses.* For our B2B Division, this expense category includes depreciation, amortization and impairment expenses and variation in operating provisions. Depreciation, amortization and impairment expenses increased from €3.3 million in 2014 to €4.2 million in 2015.

EBIT. EBIT from our B2B Division increased from €12.6 million in 2014 to €14.7 million in 2015.

EBITDA. EBITDA for our B2B Division increased by 18.3% from €16.0 million in 2014 to €18.9 million in 2015. EBITDA margin (EBITDA as a percentage of segment net operating revenues) increased slightly to 19.1% in 2015 from 19.0% in 2014. The growth in EBITDA is primarily due to increased sales of gaming kits. The B2B Division continues to focus on cost-reduction initiatives.

Year ended December 31, 2014 compared to the year ended December 31, 2013

As of January 1, 2014, we are required to give effect to IFRS 11 in our financial reporting in accordance with IFRS. In order to enable investors to compare our financial results for periods from January 1, 2014 with prior periods, we have presented herein, as required by IFRS-EU, certain reclassified financial information as of and for the year ended December 31, 2013 after giving effect to IFRS 11. The comparability is limited since such reclassified financial information does not give effect to the modifications of the management arrangements for *Casino de Rosario* and *Majestic Casino* joint ventures and certain other joint ventures implemented during 2014. All financial information presented as of and for year ended December 31, 2014 has been presented giving effect to the adoption of IFRS 11. Since the restated financial information for the year ended December 31, 2013 does not give effect to the modifications of the management arrangements that occurred during 2014, the comparability of the results of operations for the years ended December 31, 2014 and 2013 for the Group and the Casinos Division is impacted. This is particularly due to the materiality of the results of operations of *Casino de Rosario* which, for the first time, are fully consolidated during the year ended December 31, 2014. See “—*Consolidation Method and Adoption of IFRS 11*”. In this discussion and analysis, we present income statement data for the year ended December 31, 2013 on an actual basis and after being restated to give effect to IFRS 11.

The following table sets forth, by business division, operating revenues, net operating revenues, EBIT and EBITDA for the years ended December 31, 2013 (both our previously reported results and restated to give effect to IFRS 11) and 2014:

	Year ended December 31,			Change ⁽¹⁾
	2013	2013 ⁽¹⁾	2014	
	(€ in millions)			
Operating Revenues:				
Slots.....	731.3	680.1	772.5	92.4
Casinos.....	581.4	471.7	628.2	156.5
Bingo.....	222.6	172.2	170.6	(1.6)
B2B.....	91.6	87.3	84.1	(3.2)
On-Line Gaming.....	3.8	3.1	—	—
Other ⁽³⁾	(45.6)	(44.4)	(63.8)	(19.4)
Total.....	1,585.1	1,370.1	1,591.5	221.4

	Year ended December 31,			Change ⁽¹⁾
	2013	2013 ⁽¹⁾	2014	
	(€ in millions)			
Net Operating Revenues:				
Slots.....	520.5	482.0	544.8	62.8
Casinos.....	577.9	468.3	624.6	156.3
Bingo.....	214.9	163.8	163.6	(0.2)
B2B.....	91.6	87.3	84.1	(3.2)
On-Line Gaming.....	3.8	3.1	—	—
Other ⁽³⁾	(45.6)	(43.7)	(63.6)	(19.9)
Total.....	1,363.0	1,160.8	1,353.4	192.6

	Year ended December 31,			Change ⁽¹⁾
	2013	2013 ⁽¹⁾	2014	
	(€ in millions)			
EBIT:				
Slots ⁽²⁾	(3.9)	(2.4)	22.6	25.0
Casinos.....	153.2	127.2	117.6	(9.6)
Bingo.....	(14.1)	(18.3)	(10.5)	7.8
B2B.....	19.3	18.8	12.6	(6.2)
On-Line Gaming.....	(5.7)	(5.3)	—	—
Other ⁽³⁾	(15.2)	(14.7)	(14.0)	0.7
Total.....	133.7	105.3	128.4	23.1

	Year ended December 31,			Change ⁽¹⁾
	2013	2013 ⁽¹⁾	2014	
	(€ in millions)			
EBITDA:				
Slots ⁽²⁾	53.7	48.6	98.4	49.8
Casinos.....	225.8	190.3	216.4	26.1
Bingo.....	25.6	17.4	18.2	0.8
B2B.....	22.2	21.6	16.0	(5.6)
On-Line Gaming.....	(5.4)	(5.0)	—	—
Other ⁽³⁾	(19.7)	(19.2)	(20.9)	(1.7)
Total.....	302.1	253.7	328.1	74.4

- (1) Results for the year ended December 31, 2013 restated to give effect to IFRS 11. The restated figures for the year ended December 31, 2013 do not give effect to administrative changes in our joint-venture operations that occurred during the year ended December 31, 2014 and which are reflected in our results for the year ended December 31, 2014. See “—Consolidation Method and Adoption of IFRS 11.”
- (2) Our EBIT and EBITDA of our Slots division, as well as our EBIT and EBITDA of the Group for 2013 includes the CdC Settlement Payment on November 15, 2013. Adjusted EBITDA of our Slot Division and Adjusted EBITDA of the Group for 2013 amounted to €84.6 million and €289.7 million, respectively (restated to give effect to IFRS 11). The percentage change column shows the year-on-year change between our results of operations for the year ended December 31, 2013 as restated to give effect to IFRS 11 and the year ended December 31, 2014.
- (3) Other includes central corporate services and certain inter-segment consolidation adjustments.

Year ended December 31, 2014 compared to year ended December 31, 2013 (Restated)

Group Results of Operations

Net Operating Revenues

Net operating revenues increased by €192.6 million, or 16.6%, to €1,353.4 million in 2014 from €1,160.8 million in 2013. The increase in net operating revenues was primarily due to the growth in revenues from the Slots Division and Casino Division. These Divisions net operating revenues were positively impacted by acquisitions of slot machines in Spain and casinos in Peru and the amendment of management agreements for some of our joint ventures, principally *Casino de Rosario*, undertaken in order to mitigate the first-time application of IFRS 11, but negatively impacted by foreign exchange effects, particularly the 46.9% depreciation of the Argentine peso against the euro in 2014. Net operating revenues for the Bingo Division were flat while net operating revenues for the B2B Division declined slightly due to lower sales volumes as a result of ongoing economic downturn in Spain.

EBIT

EBIT increased from €105.3 million in 2013 to €128.4 million in 2014. The difference is primarily due to the CdC Settlement Payment. Excluding the CdC Settlement Payment, EBIT would have been €141.3 million in 2013.

EBITDA

EBITDA increased 29.3% from €253.7 million in 2013 to €328.1 million in 2014 primarily due to the CdC Settlement Payment. However, Adjusted EBITDA was €289.7 million in 2013 as compared to EBITDA of €328.1 in 2014, a difference of 13.3%. Adjusted EBITDA margin (Adjusted EBITDA as a percentage of net operating revenues) was 25.0% in 2013 as compared to an EBITDA margin (EBITDA as a percentage of net operating revenues) of 24.2% in 2014.

EBITDA in 2014 was positively impacted by acquisitions of slot machines in Spain and casinos in Peru and the and the amendment of management agreements for some of our joint ventures, principally *Casino de Rosario*, in order to mitigate the first-time application of IFRS 11 (which resulted in the first-time full consolidation of *Casino de Rosario*), but negatively impacted by foreign exchange effects, particularly the 46.9% depreciation of the Argentine peso against the euro in 2014. EBITDA margin in 2014 was negatively impacted by the first-time full consolidation of *Casino de Rosario*, which has lower margins than our businesses in Panama and Colombia, due to the applicable gaming tax rates for the casino.

Financial Results

Financial results were negative €88.8 million in 2014 as compared to negative €79.0 million in 2013. The difference is primarily due to the higher levels of indebtedness and higher costs of such indebtedness, including the €120 million of 2018 notes issued in January 2014.

Foreign Exchange Results

Foreign exchange results were negative €12.8 million in 2014 as compared to negative €1.6 million in 2013. The difference is primarily due to the effect of the depreciation of the Argentine peso against the euro in 2014 and the effect of the first-time full consolidation of *Casino de Rosario* in accordance with IFRS 11.

Income Tax Expense

Income tax expense increased to €32.0 million in 2014 from €20.7 million in 2013. The difference is primarily due to the effect of the first-time full consolidation of *Casino de Rosario* in accordance with IFRS 11, which is subject to a higher income tax rate than Spain, Panama, Mexico or the Dominican Republic.

Net Profit

As a result of the foregoing, net profit, after minority interests, was €55.9 million in 2014 as compared to negative €13.1 million in 2013.

Results of Operations by Division

Slots

	Year ended December 31,			Change
	2013	2013 ⁽¹⁾	2014	
	(€ in millions)			
Operating Revenues	731.3	680.1	772.5	92.4
Variable rent	(210.9)	(198.2)	(227.7)	(29.5)
Net Operating Revenues	520.5	482.0	544.8	62.8
Consumption	(32.6)	(34.1)	(32.0)	2.1
Personnel expenses	(49.0)	(43.0)	(52.8)	(9.8)
Gaming taxes	(313.0)	(292.5)	(289.3)	3.2
External supplies and services	(72.2)	(63.7)	(72.3)	(8.6)
Depreciation, amortization and impairment	(57.6)	(51.0)	(75.8)	(24.8)
EBIT	(3.9)	(2.4)	22.6	25.0
EBITDA ⁽²⁾	53.7	48.6	98.4	49.8
CdC Settlement	36.0	36.0	—	—
Adjusted EBITDA ⁽²⁾	89.7	84.6	98.4	13.8

(1) Results for the year ended December 31, 2013 restated to give effect to IFRS 11. The restated figures for the year ended December 31, 2013 do not give effect to administrative changes in our joint-venture operations that occurred during the year ended December 31, 2014 and which are reflected in our results for the year ended December 31, 2014. See “—Consolidation Method and Adoption of IFRS 11.”

(2) Slots Division EBITDA for 2013 includes the CdC Settlement Payment. Slots Division Adjusted EBITDA for 2013 excludes the above mentioned payment.

Revenues. Operating revenues from our Slots Division principally represent revenues collected from our slot machines after prize payouts. Operating revenues increased 13.6% from €680.1 million in 2013 to €772.5 million in 2014. Net operating revenues from our Slots Division represent operating revenues after variable rent payments made to site owners. Net operating revenues increased 13.0% from €482.0 million in 2013 to €544.8 million in 2014.

In Spain, net operating revenues increased by 22.6% in 2014 as compared to 2013 primarily due to the full year effect in 2014 of the acquisition in July 2013 of seven small slot route operator companies that operated approximately 4,500 slot machines. Average revenues per unit also increased in 2014 as compared to 2013. We had 26,678 slot machines in operation in Spain as of December 31, 2014 compared to 25,046 units as of December 31, 2013.

In Italy, net operating revenues increased by 5.6% in 2014 as compared to 2013. This increase is primarily due to an increase in the number of slot machines we operate and a reduction in the number of slot machines for which we only provide third-party interconnection services. As of December 31, 2014, in Italy we had 10,862 slot machines (which year-end figure includes the 779 underperforming slot machines discontinued during the fourth quarter of 2014) as compared to 10,867 slot machines as of December 31, 2013. The number of installed VLTs was stable at 2,546 as of December 31, 2014 as we completed the VLT installation program in 2013.

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

Overall costs and expenses for our Slots Division increased by 7.8% to €522.2 million in 2014 as compared to €484.4 million in 2013. 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, decreased by 1.1% from € 292.5 million in 2013 to €289.3 million in 2014. Gaming taxes in 2013 included the CdC Settlement Payment. Without giving effect to the CdC Settlement Payment, gaming taxes increased by 12.8% in 2014 as compared to 2013, broadly in line with the 13.0% increase in net operating revenues. As a percentage of segment net operating revenues, gaming taxes decreased to 53.1% in 2014 from 60.7% in 2013. Without giving effect to the CdC Settlement Payment, gaming taxes as a percentage of segment net operating revenues was 53.2% in 2013.
- *Personnel Expenses.* Personnel expenses include wages and salaries for commercial, collection and technical support employees. This expense category increased by 22.9% to €52.8 million in 2014 from €43.0 million in 2013.
- *Consumption.* Consumption expense is primarily comprised of payments to sub-operators. This expense category decreased by 6.2% from €34.1 million in 2013 to €32.0 million in 2014. This decrease was primarily attributable to lower payments made to sub-operators due to the impact of the renegotiation of profit-sharing agreements with slot operators.
- *External Supplies and Services.* This expense category increased by 13.4% from €63.7 million in 2013 to €72.3 million in 2014.
- *Depreciation, Amortization and Impairment.* Depreciation, amortization and impairment expenses increased by 48.6% from €51.0 million in 2013 to €75.8 million in 2014. The increase was primarily attributable to the increase in the number of slot machines due to acquisitions and an impairment charge of €1.9 million recorded in 2014.

EBIT. EBIT for our Slots Division increased from negative €2.4 million in 2013 to €22.6 million in 2014.

EBITDA. EBITDA for our Slots Division increased from €48.6 million in 2013 to €98.4 million in 2014. Adjusted EBITDA was € 84.6 million in 2013. Adjusted EBITDA margin (Adjusted EBITDA as a percentage of segment net operating revenues) was 17.6% in 2013 while EBITDA margin (EBITDA as a percentage of segment net operating revenues) was 18.1% in 2014. The improvement in EBITDA margin in 2014 as compared to Adjusted EBITDA margin in 2013 is primarily due to the improvement in the existing Spanish slots business and the integration of additional slot machines.

In Spain, EBITDA increased by 31.9% to €73.0 million in 2014 from €55.4 million in 2013. This increase was due to the improvement in the performance of the existing slot business and the integration of additional slot machines acquired in 2013 and 2014.

Our Italian business recorded EBITDA of €25.4 million in 2014 compared to negative €6.7 million in 2013, which 2013 figure reflects the CdC Settlement Payment. Adjusted EBITDA was €29.3 million in 2013. EBITDA in Italy in 2014 was negatively impacted by the higher proportion of revenues from slot machines rather than VLTs, due to the addition of slot machines to our portfolio, as slot machines are subject to higher gaming taxes than VLTs. This was partly offset by the discontinuation of 779 underperforming slot machines during the fourth quarter of 2014, which led to a slight improvement in EBITDA.

Casinos

	Year ended December 31,			Change
	2013	2013 ⁽¹⁾	2014	
	(€ in millions)			
Operating Revenues	581.4	471.7	628.2	156.5
Variable rent	(3.5)	(3.5)	(3.6)	(0.1)
Net Operating Revenues	577.9	468.3	624.6	156.3
Consumption.....	(10.4)	(5.8)	(12.1)	(6.3)
Personnel expenses	(117.2)	(92.1)	(131.6)	(39.5)
Gaming taxes	(109.2)	(78.0)	(130.6)	(52.6)
External supplies and services	(115.3)	(102.1)	(133.9)	(31.8)
Depreciation, amortization and impairment.....	(72.5)	(63.1)	(98.8)	(35.7)
EBIT	153.2	127.2	117.6	(9.6)
EBITDA	225.8	190.3	216.4	26.1

(1) Results for the year ended December 31, 2013 restated to give effect to IFRS 11. The restated figures for the year ended December 31, 2013 do not give effect to administrative changes in our joint-venture operations that occurred during the year ended December 31, 2014 and which are reflected in our results for the year ended December 31, 2014. See “—Consolidation Method and Adoption of IFRS 11.” The percentage change column shows the year-on-year change between our results of operations for the year ended December 31, 2013 as restated to give effect to IFRS 11 and the year ended December 31, 2014.

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 33.2% from € 471.7 million in 2013 to €628.2 million in 2014.

Net operating revenues from our Casinos Division represent operating revenues after variable rent payments. Net operating revenues increased by 33.4% from €468.3 million in 2013 to €624.6 million in 2014. The increase in revenues is primarily due to the full consolidation of *Casino de Rosario* in accordance with IFRS 11, the acquisitions of seven electronic casinos in Peru and smaller casinos in Spain, Panama and Argentina and the expansion of casinos in Panama and Colombia. This increase was partly offset by the impact of the depreciation of the Argentine peso and Colombian peso against the euro.

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

Costs and expenses from our casinos increased from €341.1 million in 2013 to €507.0 million in 2014. 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 31.2% to €133.9 million in 2014 from €102.1 million in 2013, in line with the growth in net operating revenues. As a percentage of net operating revenues, this expense category decreased to 21.4% in 2014 compared to 21.8% in 2013.
- *Gaming Taxes.* Gaming taxes increased 67.4% to € 130.6 million in 2014 as compared to €78.0 million in 2013. As a percentage of net operating revenues, this expense category increased to 20.9% in 2014 from 16.7% in 2013. This increase is primarily due to our first payment of Ps. 42 million (approximately US\$5.0 million) to the State Lottery of Argentina under the amendment to the settlement agreement between the City of Buenos Aires and the State Lottery of Argentina in December 2014. Gaming taxes were also higher due to the full consolidation of *Casino de Rosario* in accordance with IFRS 11, as *Casino de Rosario* pays a higher level of gaming taxes overall as compared to our casino businesses in other jurisdictions due to local gaming taxes at the provincial level (which also increased slightly in 2014).

- *Personnel Expenses.* Personnel expenses increased 42.9% to €131.6 million in 2014 compared to €92.1 million in 2013. As a percentage of net operating revenues, this expense category increased to 21.1% in 2014 from 19.7% in 2013.
- *Depreciation, Amortization and Impairment.* Depreciation, amortization and impairment expenses increased to €98.8 million in 2014 as compared to €63.1 million in 2013. This increase is primarily due to the full consolidation of *Casino de Rosario* in accordance with IFRS 11. *Casino de Rosario* was a “greenfield” construction project involving costs of approximately US\$300 million.
- *Consumption.* Consumption costs principally include ordinary course costs such as playing cards and chips and food and beverage expenses. Consumption expenses doubled to €12.1 million in 2014 from €5.8 million in 2013. As a percentage of net operating revenues, this expense category increased to 1.9% in 2014 from 1.3% in 2013.

EBIT. EBIT from our Casinos Division decreased to €117.6 million in 2014 from €127.2 million in 2013. EBIT margin (EBIT as a percentage of segment net operating revenues) for the Casinos Division decreased to 18.8% in 2014 from 27.2% in 2013.

EBITDA. EBITDA for our Casinos Division increased 13.7% to € 216.4 million in 2014 from €190.3 million in 2013. EBITDA margin (EBITDA as a percentage of segment net operating revenues) decreased to 34.6% in 2014 as compared to 40.6% in 2013. The EBITDA growth in 2014 was driven by the full consolidation of *Casino de Rosario* in accordance with IFRS 11 (which, on an IFRS 11 basis, contributed €38.1 million of EBITDA in 2014 as compared to zero in 2013), the acquisitions of seven electronic casinos in Peru and smaller casinos in Spain, Panama and Argentina and the expansion of casinos in Panama and Colombia. This increase was partly offset by the impact of the depreciation of the Argentine peso and Colombian peso against the euro.

The decrease in EBITDA margin is primarily attributable to the full consolidation of *Casino de Rosario* in accordance with IFRS 11, which due to the level of gaming taxes and operating taxes, has lower margins than our casinos businesses in Panama and Colombia.

Bingo

	Year ended December 31,			Change
	2013	2013 ⁽¹⁾	2014	
	(€ in millions)			
Operating Revenues	222.6	172.2	170.6	(1.6)
Variable rent	(7.8)	(8.4)	(7.0)	1.4
Net Operating Revenues	214.9	163.8	163.6	(0.2)
Consumption	(8.9)	(7.5)	(7.8)	(0.3)
Personnel expenses	(43.3)	(33.7)	(34.8)	(1.1)
Gaming taxes	(68.9)	(51.2)	(49.0)	2.2
External supplies and services	(68.2)	(54.0)	(53.7)	0.3
Depreciation, amortization and impairment	(39.6)	(35.7)	(28.7)	7.0
EBIT	(14.1)	(18.3)	(10.5)	7.8
EBITDA	25.6	17.4	18.2	0.8

(1) Results for the year ended December 31, 2013 restated to give effect to IFRS 11. The restated figures for the year ended December 31, 2013 do not give effect to administrative changes in our joint-venture operations that occurred during the year ended December 31, 2014 and which are reflected in our results for the year ended December 31, 2014. See “—Consolidation Method and Adoption of IFRS 11.” The percentage change column shows the year-on-year change between our results of operations for the year ended December 31, 2013 as restated to give effect to IFRS 11 and the year ended December 31, 2014.

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

The following table sets forth the number of bingo halls operated by our Bingo Division as of December 31, 2014 and 2013:

As of December 31	2013	2014
Spain	48	39
Mexico	19	20
Italy	12	12
Total	79	71

Operating revenues from our Bingo Division decreased 0.9% from € 172.2 million in 2013 to €170.6 million in 2014. Net operating revenues from our Bingo Division represent operating revenues after variable rent. Net operating revenues were flat at €163.6 million in 2014 as compared to €163.8 million in 2013. Revenues in 2014 were adversely impacted by the ongoing effects of the economic downturn and smoking ban in Spain and the discontinuance (via closure or sale) of nine underperforming bingo halls in Spain during 2014, which impacts were partly offset by increased revenues from our Mexican operations.

Net operating revenues from our bingo halls in Mexico increased by 2.2% to €66.3 million in 2014 compared to €64.8 million in 2013.

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

Costs and expenses for the Bingo Division decreased by 4.4% from €182.1 million in 2013 to €174.1 million in 2014. The key changes in the components of segment operating expenses are as follows:

- *Gaming Taxes.* Gaming taxes decreased by 4.2% to €49.0 million in 2014 from €51.2 million in 2013 primarily due to lower revenues in Spain.
- *Personnel Expenses.* Personnel expenses are primarily comprised of the wages and salaries and employee benefits of our bingo hall staffs. Personnel expenses increased by 3.2% from €33.7 million in 2013 to €34.8 million in 2014. As a percentage of segment net operating revenues, personnel expenses increased from 20.6% in 2013 to 21.3% in 2014.
- *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 4.1% from €7.5 million in 2013 to €7.8 million in 2014.
- *Depreciation, Amortization and Impairment Expenses.* Depreciation, amortization and impairment expenses decreased from € 35.7 million in 2013 to €28.7 million in 2014. In 2014, an impairment charge of €9.3 million was recorded compared to an impairment charge of €16.6 million in 2013. The lower impairment charge in 2014 was due to the significant impairment charges recorded in prior years and the cumulative effect of the discontinuance (by closure or sale) of 10 underperforming bingo halls.
- *External Supplies and Services.* External expenses decreased slightly to €53.7 million in 2014 from €54.0 million in 2013.

EBIT. EBIT from our Bingo Division improved from negative € 18.3 million in 2013 to €10.5 million in 2014.

EBITDA. EBITDA for our Bingo Division improved to €18.2 million in 2014 from €17.4 million in 2013. EBITDA margin (EBITDA as a percentage of net operating revenues) increased to 11.2% in 2014 from 10.6% in 2013. The increase in EBITDA and EBITDA margin is largely due to the improved performance of our Spanish bingo halls due to the discontinuance (by closure or sale) of nine underperforming halls during 2013 and 2014.

Our Mexican business contributed EBITDA of €17.0 million in 2014 as compared to €17.3 million in 2013, reflecting in part the 3.2% depreciation of the Mexican peso against the euro during 2014. The performance of the Mexican business improved during the second half of 2014 as compared to the prior year period and the first half of 2014.

B2B

	Year ended December 31,			Change
	2013	2013 ⁽¹⁾	2014	
	(€ in millions)			
Net Operating Revenues	91.6	87.3	84.1	(3.2)
Consumption.....	(32.3)	(29.9)	(30.2)	(0.3)
Personnel expenses.....	(17.9)	(17.1)	(18.3)	(1.2)
Gaming taxes.....	(1.3)	(1.3)	(1.4)	(0.1)
External supplies and services.....	(17.9)	(17.4)	(18.3)	(0.9)
Depreciation, amortization and impairment.....	(2.9)	(2.8)	(3.3)	(0.5)
EBIT	19.3	18.8	12.6	(6.2)
EBITDA	22.2	21.6	16.0	(5.6)

(1) Results for the year ended December 31, 2013 restated to give effect to IFRS 11. The restated figures for the year ended December 31, 2013 do not give effect to administrative changes in our joint-venture operations that occurred during the year ended December 31, 2014 and which are reflected in our results for the year ended December 31, 2014. See “—Consolidation Method and Adoption of IFRS 11”.

Revenues. The revenues of our B2B Division include revenues from sales of our slot machines and gaming kits and sales of slot machines produced by third parties by our distribution companies. Also included are revenues generated from supporting the Slots Division in Italy, lottery business in Argentina, and interlinked bingo games in Madrid, Andalusia and Catalonia. Net operating revenues from our B2B Division decreased by 3.7% to € 84.1 million in 2014 from €87.3 million in 2013. The decline in revenues is due to the negative impact of the ongoing effects of the economic downturn in Spain and the reduction in the overall size of the Spanish slot machine market. In addition, a number of slot machine customers have elected to purchase lower-price slot machine kits to change games or upgrade existing slot machines rather than invest in new slot machines cabinets. We have also continued to maintain tight credit scoring policies with respect to customers.

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 increased by 4.4% from € 68.5 million in 2013 to €71.5 million in 2014.

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

- **Consumption.** Consumption expenses primarily are comprised of purchases of semi-finished and finished components. Consumption expenses increased 1.1% from €29.9 million in 2013 to €30.2 million in 2014.
- **External Supplies and Services.** External supplies and services expenses increased 5.3% from €17.4 million in 2013 to €18.3 million in 2014.
- **Personnel Expenses.** Personnel expenses increased by 6.8% from €17.1 million in 2013 to €18.3 million in 2014.
- **Depreciation, Amortization and Impairment Expenses.** For our B2B Division, this expense category includes depreciation, amortization and impairment expenses and variation in operating provisions. Depreciation, amortization and impairment expenses increased from €2.8 million in 2013 to €3.3 million in 2014.

EBIT. EBIT from our B2B Division decreased from €18.8 million in 2013 to €12.6 million in 2014.

EBITDA. EBITDA for our B2B Division decreased by 26.1% from € 21.6 million in 2013 to €16.0 million in 2014. EBITDA margin (EBITDA as a percentage of segment net operating revenues) decreased to 19.0% in 2014 from 24.8% in 2013. The decrease reflects the impact of lower sales on a largely fixed cost base. The B2B Division continues to focus on cost-reduction initiatives.

Liquidity and Capital Resources

Historical Cash Flows

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

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

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

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

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

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

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

Consolidated Cash Flow Statement

	Year ended December 31,			
	2013	2013 ⁽¹⁾	2014	2015
	(€ in millions)			
Cash flows from operating activities				
Profit before tax, as per the consolidated profit and loss accounts	29.5	21.6	108.5	56.4
Adjustments for non-cash revenues and expenses:				
Depreciation, amortization and impairment	163.0	143.4	193.5	201.2
Allowances for doubtful accounts and inventories	5.4	5.0	6.2	2.8
Other	(5.9)	(5.9)	3.4	21.3
Financial items included in profit before tax:				
Financial results	93.6	79.0	88.8	106.3
Foreign exchange results	7.3	1.6	12.8	3.8
Results on sale of non-current assets	3.3	3.0	(81.8)	9.6
Adjusted profit before tax from operations before changes in net operating assets	296.2	247.8	331.5	401.3
Variations in:				
Receivables	(4.5)	(6.3)	(6.9)	(10.5)
Inventories	(1.3)	(1.6)	(0.6)	(1.1)
Payables	(13.9)	(10.5)	6.1	7.0
Taxes payable on gaming	(12.8)	(12.8)	(11.0)	1.2
Accruals, net	(15.7)	(11.1)	(17.1)	7.8
Cash generated from operations	247.9	205.6	302.0	405.6
Income taxes paid	(43.5)	(40.2)	(48.5)	(52.3)
Net cash flows from operating activities	204.4	165.4	253.4	353.2
Cash flows from (used in) investing activities				
Purchase and development of property, plant and equipment	(81.5)	(66.2)	(99.3)	(95.7)
Purchase and development of intangibles	(36.6)	(33.3)	(24.3)	(27.5)
Acquisition of participating companies, net of cash acquired	(22.5)	(22.5)	(56.0)	(62.4)
Current account with Nortia Corporation—Outflows	(110.3)	(110.3)	(49.3)	(50.0)
Current account with Nortia Corporation—Inflows	110.3	110.3	47.2	52.0
Proceeds from sale of assets	20.9	20.7	0.6	6.2
Purchase of other financial assets	(2.9)	(4.0)	(16.4)	(7.5)
Interest received on loans granted and cash revenues from other financial assets	7.0	6.9	6.4	7.3
Net cash flows used in investing activities	(115.6)	(98.4)	(191.1)	(177.6)
Cash flows from (used in) financing activities				
Proceeds from bank borrowings	1,327.6	1,333.8	1,357.9	1,397.5
Repayment of bank borrowings	(1,381.6)	(1,375.4)	(1,386.2)	(1,415.2)
Issuance of bonds	101.7	101.7	127.7	496.1
Repayment of bonds	—	—	—	(461.3)
Purchase/sale of bonds	—	—	—	(9.5)
Capital lease payments	(5.3)	(5.3)	(19.2)	(8.1)
Interest paid on financial debt	(96.2)	(87.7)	(92.6)	(114.3)
Proceeds from / repayment of other borrowings	(12.3)	(12.3)	—	—
Dividends Paid and Other	(15.3)	(13.4)	(26.5)	(23.4)
Net cash flows from (used in) financing activities	(81.3)	(58.6)	(38.9)	(138.3)
Net variation in cash and cash equivalents	7.4	8.3	23.4	37.3
Net foreign exchange differences	(4.2)	(3.2)	(2.5)	(0.8)
Cash and cash equivalents from business combinations	—	—	11.6	—
Cash and cash equivalents at January 1	55.2	40.7	45.9	78.4
Cash and cash equivalents at December 31	58.4	45.9	78.4	114.9

(1) Data for the year ended December 31, 2013 restated to give effect to IFRS 11. See “—Consolidation Method and Adoption of IFRS 11.”

Cash Flows from Operating Activities. Our net cash flow from operating activities was €353.2 million in 2015, €253.4 million in 2014 and €204.4 million in 2013. The difference in our net cash flow from operating activities in 2015 compared to 2014 was primarily due to our higher EBITDA and variations in gaming tax payables and net accruals. The difference in our net cash flow from operating activities in 2014 compared to 2013 was due to our higher EBITDA being partly offset by variations in payables.

Cash Flows used in Investing Activities. Our net cash flow used in investing activities was €177.6 million in 2015 as compared to €191.1 million in 2014. The difference in our net cash flow used in investing activities in 2015 as compared to 2014 was due to variations in the purchase of other financial assets. Our net cash flow used in investing activities was €191.1 million in 2014 as compared

to €115.6 million in 2013 due to a greater number of acquisitions, including nine casinos in Peru, as compared to 2013.

Cash Flows used in Financing Activities. Our net cash flow used in financing activities was €138.3 million in 2015, as compared to €38.9 million in 2014. The difference in our net cash flow used in financing activities in 2015 compared to 2014 was primarily due to the repayment of a portion of the 2018 notes in 2015 and higher costs related to the issuance of the 2023 notes. Our net cash flow used in financing activities was €38.9 million in 2014 as compared to €81.3 million in 2013 which reflected our issuance of €120 million of 2018 notes in January 2014.

Working Capital Requirements

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

	Year ended December 31,			
	2013	2013 ⁽¹⁾	2014	2015
	(€ in millions)			
Variations in:				
Receivables.....	(4.5)	(6.3)	(6.9)	(10.5)
Inventories.....	(1.3)	(1.6)	(0.6)	(1.1)
Payables.....	(13.9)	(10.5)	6.1	7.0
Tax payable on gaming.....	(12.8)	(12.8)	(11.0)	1.2
Accruals, net.....	(15.7)	(11.1)	(17.1)	7.8
Total.....	(48.2)	(42.3)	(29.5)	4.4

(1) Data for the year ended December 31, 2013 restated to give effect to IFRS 11. See “—Consolidation Method and Adoption of IFRS 11”.

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

Our results of operations can be impacted by the level of allowances for doubtful accounts. Movements in these allowances are recorded in “Change in trade provisions” in our profit and loss account. Changes in trade provisions changed from €5.4 million in 2013 to €6.2 million in 2014 to €2.8 million in 2015.

During the period under review, our working capital has been principally driven by the level of demand for the slot machines of our B2B Division. The total variation in working capital changed from negative €48.2 million in 2013 (negative €42.3 million after giving effect to IFRS 11) to negative €29.5 million in 2014 to positive €4.4 million in 2015. The change in working capital is primarily attributable to variations in gaming tax payables and net accruals.

We anticipate that our working capital requirements in the foreseeable future will generally be stable. However, these requirements can fluctuate for a variety of factors, including any significant increase in demand for slot machines produced by us.

Capital Expenditures

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

	Year ended December 31,			
	2013	2013⁽¹⁾	2014	2015
	(€ in millions)			
Purchase and development of property, plant and equipment.....	81.5	66.2	99.3	95.7
Purchase and development of intangibles	36.6	33.3	24.3	27.5
Total Capital Expenditures	118.1	99.5	123.6	123.2

(1) Data for the year ended December 31, 2013 restated to give effect to IFRS 11. See “—Consolidation Method and Adoption of IFRS 11”.

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,			
	2013	2013⁽¹⁾	2014	2015
	(€ in millions)			
Capital expenditures by business division				
Slots	35.1	27.1	37.0	45.1
Casinos.....	61.4	52.1	63.9	63.9
Bingo	16.7	16.2	14.3	8.3
B2B.....	3.4	3.1	7.3	4.6
On-line Gaming	0.9	0.1	—	—
Structure.....	0.6	0.9	1.1	1.3
Total Capital Expenditures	118.1	99.5	123.6	123.2

(1) Data for the year ended December 31, 2013 restated to give effect to IFRS 11. See “—Consolidation Method and Adoption of IFRS 11.”

Our total capital expenditures for 2015 were €123.2 million. Our major capital expenditures in 2015 included:

- €90.8 million of maintenance expenditures; and
- €32.4 million for expansion of our Latin American casinos businesses, particularly in Panama, Mexico and Colombia.

Our total capital expenditures for 2014 were €123.6 million. Our major capital expenditures in 2014 included:

- €93.9 million of maintenance expenditures; and
- €29.7 million for expansion of our Latin American casinos businesses, particularly in Panama.

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

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

We estimate that our total capital expenditures for 2016 will be approximately €120 million. In addition to maintenance capital expenditures, we expect that the principal areas of capital expenditure for 2016 will be to purchase slot machines for our Slots and Casinos Divisions.

Contractual Obligations

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

Our consolidated contractual obligations as of December 31, 2015 were as follows:

Contractual Obligations	Payments due by period			
	Total	Less than 1 year	1-3 years	After 4 years
		(€ in millions)		
Long term debt.....	1,028.4	—	535.7	492.6
Promissory notes.....	22.9	10.0	6.7	6.2
Capital lease agreements (short term).....	6.6	6.6	—	—
Other obligations (short term).....	44.6	44.6	—	—
Multigroup and affiliated companies.....	1.2	1.2	—	—
Total contractual obligations.....	1,103.7	62.4	542.4	498.8

Off-Balance Sheet Arrangements

We generally do not utilize off balance sheet arrangements, other than performance bonds for obligations for gaming taxes and prizes and other obligations. See note 15 to our consolidated financial statements as of and for the year ended December 31, 2015 and “—*Market Risks.*”

Liquidity

Intra Group Funding

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

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

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

External Sources of Liquidity

Our principal external sources of liquidity during the periods under review have been the issuance of debt securities, borrowings under long-term and short-term credit facilities (including the Revolving Credit Facility with Deutsche Bank AG, London Branch), gaming tax deferrals, local lines of credit and overdraft facilities, as well as capital leases. In addition, we expect that as in the past, certain of our partners in joint ventures and companies in which we hold a minority interest will provide funding for these joint ventures and companies. The Revolving Credit Facility is expected to remain undrawn on the date of issuance of the notes.

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, Argentina, Panama and Italy.

We will use the net proceeds from the issuance of the 2021 notes (i) to repurchase or redeem and discharge in full €450.0 million aggregate principal amount of the 2018 notes, including by means of the Tender Offer and (ii) to pay commissions, fees and expenses estimated at approximately €6.0 million in connection with the offering of the 2021 notes, the Tender Offer and the redemption of the 2018 notes announced April 27, 2016. Following these transactions, approximately €500.0 million aggregate principal amount of the 2023 notes, which mature on May 15, 2023, will remain outstanding.

We have substantial debt and debt service obligations. As of December 31, 2015, after giving *pro forma* effect to the issuance of the 2021 notes and the application of the proceeds therefrom, we would have had approximately €1,091.4 million of debt. Our level of debt has increased during the last five years. In addition, we may incur substantial additional debt in the future. See “*Risk Factors—Risks relating to the notes—Our substantial debt and debt service obligations could adversely affect our business, financial condition and results of operations.*”

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

- meet our debt service requirements under the notes and our other indebtedness;
- fund our working capital requirements, particularly for our B2B Division;
- make capital investments to comply with our existing contractual obligations and the terms of our licenses, to acquire new slot machines and to maintain and to expand our slots business in Spain 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. See “*Risk Factors—Risks relating to the notes—We require a significant amount of cash to service our debt and for other general corporate purposes. Our ability to generate sufficient cash depends on many factors beyond our control.*”

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

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

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

Effects of Inflation

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

Argentina experienced inflationary effects in 2002. During 2002, the Argentine consumer price index increased in excess of 40% and the wholesale price index increased 118%. During 2014 and 2015, the Argentine consumer price index increased in excess of 20%.

Effects of Related Party Transactions

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

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

Employee Benefit Plans

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

Critical Accounting Policies

Our financial statements and the accompanying notes contain information that is pertinent to this discussion and analysis of our financial position and results of operations. The preparation of financial statements in conformity with IFRS-EU requires our management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. Estimates are evaluated based on available information and experience. Actual results could differ from these estimates under different assumptions or conditions. We believe that, in particular, the critical accounting policies and estimates discussed below involve significant management judgment due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. For a detailed description of our significant accounting policies, see note 2 to our consolidated financial statements as of and for the year ended December 31, 2015.

Allowance for doubtful accounts

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

Inventory

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

Intangible assets

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

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

Impairment

Impairment of Non-Financial Assets

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

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

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

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

Impairment of Financial Assets

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

- Assets measured at amortized cost.

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

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

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

- Available-for-sale financial assets.

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

Business combinations and goodwill

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

Income taxes

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

Change in Accounting Policies

For information regarding recent and pending changes to accounting policies, see note 2.3 to our 2015 consolidated financial statements as of and for the year ended December 31, 2015 and “—*Consolidation Method and Adoption of IFRS 11.*”

Market Risks

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

Interest Rate Risks

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

Foreign Currency Risks

Our principal exchange rate exposure relates to euro/Argentine peso for translation related exposure. We also have exchange rate exposure to the euro/U.S. dollar and to the euro/Colombian peso.

As described in “—*Overview—Latin American Currency Effects*”, our foreign currency exchange rate exposure is partly mitigated due to the incurrence of most of our operating costs in countries such as Argentina and Colombia in local currencies, and in Panama in the U.S. dollar. Likewise, we also explore opportunities to obtain local-currency denominated financings in certain of the countries that we operate, such as Colombia, Argentina and Panama. See “—*Liquidity—External Sources of Liquidity.*”

10. MANAGEMENT

Board of Directors

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

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

The following is information about the members of the Board of Directors as of December 31, 2015:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Manuel Lao Hernández.....	70	Chairman of the Board and Managing Director
Manuel Lao Gorina.....	44	Vice Chairman of the Board and Managing Director
María Esther Lao Gorina	40	Communication and Advertising Executive

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

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

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

Executive and Divisional Officers

The following table presents, as of December 31, 2015, our executive and divisional officers that are not members of Cirsa's Board of Directors:

Name	Age	Title
Joaquim Agut.....	61	Chief Executive Officer
<i>Business Divisions</i>		
Carlos López Reboredo.....	58	Manager, Slots Division
Jose Maria Casas.....	58	Manager, B2B Division
Carlos Font.....	54	Manager, Casinos Division
Manel Estany	53	Manager, Bingo Division
<i>Corporate Areas</i>		
Isaac Lahuerta.....	57	General Manager, Corporate Areas
David Royo.....	57	Chief Financial Officer
Miquel Vizcaino	52	Legal
Xavier Cots	54	Human Resources
Antonio Hostench	48	Corporate Development and Strategy

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

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

Carlos López Reboredo (Manager, Slots Division) joined Cirsa in 2015. Mr. López previously served as General Manager for EGASA, a leading slot machine operator in Spain. He received a degree in Economics from the Universidad Santiago de Compostela (1980) and a degree in Management from ESADE (2009).

Jose M. Casas (Manager, B2B Division) joined Cirsa in October 2006. Prior to joining Cirsa, Mr. Casas served as Supply Chain Manager in GE Power Controls in Europe and Plant Manager in Papelera del Besós. He received a Masters degree in Industrial Engineering from the *Universidad Politecnica de Catalunya* (1981).

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

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

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

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

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

Xavier Cots (Director, Human Resources) joined Cirsa in 2000. Prior to joining Cirsa, he served as Director of Human Resources of Gates Vulca (1996-1998) and as Director of Human

Resources Europe for BIC Graphic Europe S.L. (1998-2000). He received a degree in Law from U.O.C. (2005), a degree in Business Administration from *Universidad de Barcelona* (1985) and a degree in Human Resources Management from EADA (1993).

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

The business address for each of the members of the Board of Directors and senior management of Cirsa is Carretera de Castellar, 298, Terrasa (Barcelona), Spain.

Compensation of Managers and Executive and Divisional Officers

For the year ended December 31, 2015, we paid an aggregate of approximately €5.0 million to our directors and executive and divisional officers, including cash compensation for salary and bonuses. In 2017, our deferred compensation program will result in payments to certain of our executive and divisional officers in an approximate aggregate amount of €5.0 million. In addition, company cars have been provided for certain of our directors and executive and divisional officers.

11. PRINCIPAL SHAREHOLDERS

As of December 31, 2015, Cirsa Funding Luxembourg S.A. had issued and outstanding 20,310 ordinary shares, all of which were held by Cirsa.

The following table sets forth, as of December 31, 2015, information regarding beneficial ownership of Cirsa's outstanding ordinary shares (excluding treasury shares):

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

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

As of December 31, 2015, a total of 32,003,250 of Cirsa's ordinary shares, or 26.04% of Cirsa's issued and outstanding ordinary shares, are subject to pledges to secure certain obligations of Nortia under bank debt.

12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Transactions with Nortia

Transactions in the ordinary course of business

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

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

Nortia and its affiliates provide professional and other corporate services (public relations and marketing activities, real estate management, travel and insurance brokerage) which amounted to €4.3 million, €3.9 million and €3.8 million for 2013, 2014 and 2015 respectively. We regularly provide to Nortia and its affiliates corporate management services, such as information technology, administrative, legal, financial and human resources, that amounted to, €0.9 million in 2013, €0.5 million in 2014 and €0.6 million in 2015.

In addition to the above, and according to our business needs from time to time, we charter one or more airplanes from Executive Airlines, S.L. (“Executive Airlines”), a former subsidiary of Nortia which was sold to a third party in July 2015. Executive Airlines, in turn, leases the airplanes we charter under three leasing arrangements. The total amounts paid to Executive Airlines for the charter of airplanes in 2013, 2014 and 2015 were €1.6 million, €2.1 million and €1.2 million respectively.

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

Financial Transactions

A long-term loan from Cirsa to Nortia is outstanding. This loan bears interest at a rate of 8.75% per annum and matures on December 31, 2017. In connection with our acquisition of a majority interest in the Winner Group, we acquired a 9% ownership interest from Nortia for a total consideration of \$10 million. This amount was deducted from the intercompany loan between Nortia and Cirsa, and did not involve any cash payment. On July 12, 2013, we acquired a majority interest in seven small Spanish slot route operator companies that were formerly part of the Opesa group (the “Acquired Group”) for total cash consideration of €17.1 million, from Nortia. The minority interest in the Acquired Group not acquired will continue to be held by independent local partners in Spain. On September 30, 2013, Nortia made a voluntary cash prepayment of €12.0 million on the outstanding intercompany loan. As of December 31, 2015, the aggregate amount of this loan was €31.4 million.

As of December 31, 2013, 2014 and 2015 Nortia owed Cirsa, €3.6 million, €3.1 million, €2.6 million, respectively, under certain promissory notes issued in connection with real estate transfers between Cirsa and Nortia. This includes promissory notes issued in 2004 in connection with the sale of property comprising the Unidesa R&D Center to Nortia.

As of December 31, 2015, a total of 32,003,250 of Cirsa’s ordinary shares, or 26.04% of Cirsa’s issued and outstanding ordinary shares, are subject to pledges to secure certain obligations of Nortia under bank debt.

Transactions with Opesa

We make direct sales of slot machines to subsidiaries of Opesa, which holds controlling and non-controlling interests in slot machine operators. Opesa is a subsidiary of Nortia in which Mr. Manuel Lao Hernández and his family together own a 100% interest. Opesa and its subsidiaries compete directly with us in the slot machine operations business. For the years ended December 31,

2013, 2014 and 2015, approximately €0.7 million, €0.3 million and €0.5 million respectively, of our B2B sales of slot machines were to subsidiaries of Opesa, which benefits from significant volume discounts.

In addition, we regularly provide Opesa and its subsidiaries with corporate management services, such as information technology and legal and human resources, that amounted to €0.8 million, €0.5 million and €0.5 million, in 2013, 2014 and 2015, respectively.

On February 14, 2014, we acquired a small casino in Spain (Casino Las Palmas, Canary Islands) for immaterial cash consideration from Opesa. The casino reported negative EBITDA of €0.5 million in 2013.

Transactions with Directors

Cirsa maintains a cash account with shareholders and directors for the purpose of clearing business expenses. As of December 31, 2015, the balance of this cash account was €0.0 million.

13. DESCRIPTION OF CERTAIN INDEBTEDNESS

The following is a summary of certain of our significant indebtedness as of December 31, 2015 (and does not reflect the issuance of the 2021 notes on April 27, 2016). The summary is not complete and reference should be made to the full text of the documents for such indebtedness, including the indenture for the 2023 notes, the indenture for the 2018 notes and the intercreditor agreement.

	Payments due by period ending December 31,					After December 31, 2020	Total
	2016	2017	2018	2019	2020		
	(€ in millions)						
Bank loan agreements.....	23.8	24.9	41.7	7.9	3.9	7.4	109.6
Revolving facilities.....	13.6	2.0	2.0	2.0	—	—	19.6
Receivables financing.....	1.0	—	—	—	—	—	1.0
Total bank debt.....	38.4	26.9	43.7	9.9	3.9	7.4	130.3
Capital leasing agreements.....	6.6	2.6	1.2	0.6	0.1	0.1	11.1
2018 notes.....	3.5	—	449.2	—	—	—	452.7
2023 notes.....	1.8	—	—	—	—	481.0	482.8
Gaming tax deferrals.....	0.9	0.8	0.8	0.1	0.0	0.1	2.7
Promissory notes and other loans.....	10.0	4.7	1.0	1.0	6.2	—	23.0
Total.....	61.2	35.1	495.9	11.5	10.3	488.6	1,102.6

As of December 31, 2015, we had total debt of €1,102.6 million (including principal amount and accrued interest).

Bank Loan Agreements

As of December 31, 2015, we were party to 133 bank loan agreements with 32 banks. As of December 31, 2015, the aggregate outstanding principal amount under these loans was €109.6 million with interest rates ranging between 0.9% and 9.5%. Some of these loan agreements are secured by certain of the assets of our Marbella casino. One loan agreement is secured by the shares of certain companies in our Bingo Division, as well as certain of their assets. The loan agreements typically contain financial maintenance and certain restrictive covenants.

Revolving Facilities

As of December 31, 2015, we were party to 54 revolving facilities with 22 banks which agreements provide for, subject to satisfaction of certain drawn down conditions, aggregate borrowings of up to €28.1 million. As of December 31, 2015, the aggregate outstanding principal amount under these credit facilities was €19.6 million with interest rates ranging between 1.5% and 7.4%.

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

Receivables Financing

We have entered into financing arrangements under which we obtain loans backed by a portion of our trade receivables. These arrangements do not have a maturity of more than 180 days. As of December 31, 2015, we were party to 7 receivable financing agreements with 6 banks which allow for borrowings of up to €5.8 million. As of December 31, 2015, the aggregate outstanding principal amount under these financing arrangements was €1.0 million, with interest rates ranging from between 1.8% and 3.0%.

Capital Leasing Agreements

As of December 31, 2015, we were party to 126 capital leasing agreements with 23 financial institutions. Most of these leasing agreements are granted under master leasing agreements that set forth the main terms and conditions of each lease and have a term of three to four years.

At December 31, 2015, the aggregate outstanding principal amount (including accrued interest) of these leasing agreements was €11.1 million.

Gaming Tax Deferrals

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

We generally apply for a deferment of the payment of the gaming tax with the tax authorities of the various Spanish autonomous regions in which we operate for a period ranging from three to six months. Typically, gaming taxes may be deferred for three to six months, but, from time to time, some tax authorities expressly authorize the deferment of gaming taxes for a period greater than one year. As of December 31, 2015, our aggregate amount of deferred gaming taxes was €2.7 million.

Promissory Notes

We issue promissory notes from time to time to finance the purchase of gaming assets and primarily slot machine operations. As of December 31, 2015, the aggregate outstanding amount of such promissory notes was €23.0 million. Some of these notes may be secured by the assets of the acquired companies.

Other Obligations

In addition to obligations under our indebtedness, we have a number of contingent obligations. Among other things, as is customary in the gaming industry, we obtain performance bonds from financial institutions and other providers in order to guarantee our compliance with gaming regulations. We also obtain performance bonds for other purposes, such as tenders for gaming concessions and the purchase of materials and equipment. As of December 31, 2015, we had obtained approximately 804 performance bonds from approximately 37 financial institutions in an aggregate amount of €141.8 million. None of these performance bonds have been called during the last three fiscal years.

As of December 31, 2015, we had no long-term obligations to our joint ventures and minority investees and we had short-term obligations to such entities of €1.2 million. Our net debt owed to our joint ventures and minority investees was €10.9 million.

2018 notes

Cirsa Funding has issued an aggregate principal amount of €450.0 million of 8.75% Senior Notes due 2018 pursuant to an indenture dated May 5, 2010. The 2018 notes will mature on May 15, 2018. Interest has accrued from May 5, 2010 at the rate of 8.75% per annum, and is paid on May 15 and November 15 of each year.

At any time on or after May 15, 2014, Cirsa Funding may redeem the 2018 notes in whole or in part by paying the following redemption prices plus accrued and unpaid interest, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on May 15 of the years indicated below:

<u>Redemption period</u>	<u>Percentage</u>
2014.....	104.375%
2015.....	102.188%
2016 and thereafter	100.000%

The Issuer announced April 27, 2016 that it will redeem all remaining outstanding 2018 notes. Following such redemption no 2018 notes will remain outstanding and the 2018 notes indenture will be satisfied and discharged in full.

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

2023 notes

Cirsa Funding has issued an aggregate principal amount of €500.0 million of 5.875% Senior Notes due 2023 pursuant to an indenture dated May 6, 2015. The 2023 notes will mature on May 15, 2023. Interest has accrued from May 5, 2015 at the rate of 5.875% per annum, and is paid on May 15 and November 15 of each year.

At any time on or after May 15, 2018, Cirsa Funding may redeem the 2023 notes in whole or in part by paying the following redemption prices plus accrued and unpaid interest, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on May 15 of the years indicated below:

<u>Redemption period</u>	<u>Percentage</u>
2018	102.938%
2019	101.469%
2020 and thereafter.....	100.000%

The 2023 notes (and the Guarantees thereof) are subject to the terms of the Intercreditor Agreement. See “—*Intercreditor Agreement*.”

Revolving Credit Facility

On May 5, 2010, Cirsa, as original borrower, and the Guarantors and Global Bingo Corporation S.A., together as original guarantors (the “RCF Guarantors”), entered into the Revolving Credit Facility with Deutsche Bank AG, London Branch, as arranger, original lender, facility agent (“RCF Facility Agent”) security trustee (“Security Trustee”) and issuing bank. We amended the Revolving Credit Facility on February 4, 2011 to, amongst other things, increase the aggregate committed amount under the Revolving Credit Facility from €30 million to €50 million. The Revolving Credit Facility was amended and restated on February 5, 2013. Thereafter, we amended the Revolving Credit Facility on April 14, 2015 to increase the commitments from €50 million to €75 million. The Revolving Credit Facility was also amended and restated on April 29, 2015 to, among other things, extend the maturity to March 31, 2020 and to permit Cirsa to increase the commitments thereunder up to a maximum of €200 million if certain conditions are complied with. Following the partial discharge of the 2018 notes, the 2023 notes indenture and the Intercreditor Agreement will permit up to €200 million to be drawn under the Revolving Credit Facility and for such facility to have the benefit of the Intercreditor Agreement as described herein.

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

Interest and maturity

The loans under the Revolving Credit Facility presently bear interest at EURIBOR (or LIBOR, as applicable) plus a margin of 3.00% per annum payable on the last day of each applicable interest period (as determined in accordance with the terms of the Revolving Credit Facility).

The termination date of the Revolving Credit Facility, as it will be amended, is March 31, 2020.

Covenants and events of default

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

Security and guarantees

The obligations under the Revolving Credit Facility are secured by a first-ranking pledge over the shares of certain of Cirsa's subsidiaries granted by Cirsa Holding Italia S.p.A. (the "RCF Security"). Guarantees have been provided by Cirsa and the RCF Guarantors, subject to certain customary limitations relating to such matters as unlawful financial assistance or which would result in directors or officers acting in contravention of their fiduciary duties and/or would subject them to civil or criminal or personal liability as a result of providing such guarantees.

While the aggregate principal committed amount made available under the Revolving Credit Facility is presently €75 million, the lenders of any additional amounts that may be committed thereunder (up to an aggregate of €200 million) likewise shall have the benefit of such security (subject to any local law limitations) and upon acceleration shall benefit from the terms of the intercreditor agreement.

Voluntary prepayments

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

Mandatory prepayments

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

Intercreditor Agreement

To establish the relative rights of our creditors under the Revolving Credit Facility and the indentures for the 2023 notes and the 2018 notes, Cirsa Funding, Cirsa, the RCF Guarantors (Cirsa and the RCF Guarantors, together the "Obligors") and Group Companies that are creditors in respect of certain intercompany debt have entered into an intercreditor agreement (the "Intercreditor Agreement") originally dated May 5, 2010, with, among others, the lenders under the Revolving Credit Facility, the RCF Facility Agent, the Security Trustee and Deutsche Trustee Company Limited, as trustee for the 2018 notes and as trustee for the 2023 notes (and any additional creditors providing additional revolving credit facility financing following the discharge of the 2018 notes, up to an aggregate of €200 million shall accede to the Intercreditor Agreement at such time as such party provides additional financing).

The Intercreditor Agreement sets out:

- the relative ranking of the indebtedness under the Revolving Credit Facility and the indebtedness under the 2023 notes, the 2018 notes and any debt permitted to be incurred under the Revolving Credit Facility, the 2018 notes indenture, the 2023 notes indenture, the 2023 notes and the 2018 notes (the "Permitted Debt") and the Guarantees;
- certain provisions concerning enforcement action that can be taken in respect of that debt;
- the procedure of enforcement of the transaction security or any guarantee of the Revolving Credit Facility or the Guarantees and the allocation of proceeds resulting from such enforcement;
- the terms pursuant to which certain intercompany debt will be subordinated upon the occurrence of certain insolvency events; and

- turnover provisions.

The following description is a summary of certain provisions contained in the Intercreditor Agreement. It does not restate the Intercreditor Agreement in its entirety and, as such, we urge you to read that document because it, and not the discussion that follows, defines certain rights (and restrictions on entitlement) of the holders of the 2023 notes and the 2018 notes.

Priority of debts

The Intercreditor Agreement provides that outstanding debt under the Revolving Credit Facility (including the guarantees thereof), the 2023 notes, the 2018 notes, any Permitted Debt and the Guarantees will rank *pari passu*, without any preference between them, in priority to any intercompany loans.

Enforcement

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

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

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

- first, in payment *pari passu* and ratably (i) of the fees, costs, expenses and liabilities (and all interest thereon) of the RCF Facility Agent, the Security Trustee, and any receiver, delegate, attorney or agent appointed under the security documents or the Intercreditor Agreement and (ii) owing to the trustee for the 2023 notes and the 2018 notes in respect of Notes Trustee Ordinary Course Amounts (as defined below) or the Permitted Debt representative, if any;
- second, in payment *pari passu* and ratably of unpaid costs and expenses of the RCF Facility Agent and any other finance party under the Revolving Credit Facility (other than the Security Trustee, any receiver or delegate);
- third, in payment to the RCF Facility Agent for application towards the balance of the Revolving Credit Facility;
- fourth, in payment *pari passu* and ratably to the trustee of the 2023 notes and the trustee of the 2018 notes for application towards the balance of the 2023 notes, the 2018 notes and the Guarantees and any Permitted Debt representative or, if none has been appointed, any other Permitted Debt Creditor for application toward any Permitted Debt; and
- fifth, in payment of the surplus (if any) to the Obligors or other persons entitled to it for intercompany liabilities or otherwise.

As used in the Intercreditor Agreement, the term “Notes Trustee Ordinary Course Amounts” means the fees, costs and expenses of the trustee for the 2023 notes and the trustee for the 2018 notes (including any amount payable to such trustees for the 2023 notes or the 2018 notes personally by way of indemnity, remuneration or to reimburse it for expenses incurred) payable for their own account pursuant to the 2018 or 2023 notes documents in respect of the ongoing day-to-day administration of the 2018 or 2023 notes documents and the costs of any enforcement action (including legal and other professional advisory fees) which are recoverable pursuant to the terms of the indentures of the 2018 notes and the 2023 notes or any other document entered into in connection with the issuance of the 2018 notes or the 2023 notes.

Release of Transaction Security, Guarantees and Intercompany Debt

Each holder of the 2023 notes and the 2018 notes, the lenders in respect of intercompany loans, the lenders under the Revolving Credit Facility and all other creditors (other than the Security Trustee) irrevocably authorizes the Security Trustee to unconditionally release in any manner whatsoever any guarantees of the Revolving Credit Facility, Guarantees, intercompany loans and/or transaction security and/or other liabilities in respect of such debt in connection with any Enforcement Action taken or to be taken by the Security Trustee in accordance with the provisions of the Intercreditor Agreement and the other relevant Finance Documents, and the Security Trustee (and the RCF Facility Agent, the 2023 notes trustee and the 2018 notes trustee and any Permitted Debt representative) shall promptly execute any such release or take such other action as is reasonably required to effect any such release at the expense of Cirsa.

It is a condition to the release of any Guarantees of the 2023 notes and the 2018 notes and other liabilities in respect of the notes and the Guarantees that the proposed Enforcement Action taken or to be taken by the Security Trustee involves the sale of shares and/or assets and that:

- either (a) such sale is made pursuant to a public auction or a process or proceedings approved or supervised by or on behalf of any court of law; or (b) in connection with such sale, an internationally recognized investment bank selected by the Security Trustee has delivered an opinion to the trustee of the 2023 notes and the trustee of the 2018 notes that the sale price is fair from a financial point of view after taking into account all of the relevant circumstances in connection with such sale;
- the proceeds of such sale will be received by the Security Trustee in the form of cash (or substantially all cash);
- immediately prior to or concurrently with the completion of such sale, the relevant Guarantor and each of its Subsidiaries is or will be simultaneously and unconditionally released from all guarantees of the Revolving Credit Facility, other liabilities in respect of the Revolving Credit Facility and any secured hedging obligations relating thereto and all intercompany debt owed by such Group Company (or such debt is sold or otherwise disposed of by the relevant creditors to the purchaser of the relevant Group Company) and such obligations are not assumed by the purchaser of such Guarantor or an affiliate of such purchaser; and
- the net cash proceeds of sale are applied as described under “—*Enforcement.*”

Intercompany debt

Pursuant to the Intercreditor Agreement, Cirsa and its subsidiaries party thereto that are creditors in respect of intercompany debt have agreed to subordinate intercompany debt to debt under the Revolving Credit Facility, the 2023 notes, the 2018 notes, any Permitted Debt and related guarantees.

In addition, neither Cirsa nor any of its subsidiaries that are creditors in respect of intercompany debt may accept the benefit of any security, guarantee, indemnity or other assurance against financial loss in respect of intercompany debt. Neither Cirsa nor any obligor may make any payment on or otherwise acquire or satisfy any intercompany debt if an enforcement action has occurred or is continuing in relation to the Revolving Credit Facility, the 2023 notes, the 2018 notes or any Permitted Debt without the consent of the RCF Facility Agent.

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

Turnover

If any creditor (defined in the Intercreditor Agreement as any trustee for the 2018 notes or the 2023 notes on behalf of the holders of the 2018 notes or the 2023 notes, respectively, the Security Trustee, the lenders under the Revolving Credit Facility, the RCF Facility Agent and any receiver or delegate and any creditor of Permitted Debt, including a Permitted Debt representative) or Cirsa or any of its subsidiaries receives or recovers a payment in contravention of the Intercreditor Agreement, such creditor shall hold such payment in trust and pay over such amounts to the Security Trustee for application in accordance with the provision described above under “—*Enforcement.*”

In addition, if the trustee for the 2018 notes or the trustee for the 2023 notes on behalf of the holders of the 2018 notes or the 2023 notes, respectively, receives any amount from a member of the Group after enforcement of the 2023 notes, the 2018 notes, any Permitted Debt or the Revolving Credit Facility, such person shall hold such amount in trust and pay over to the Security Trustee for application in accordance with the provisions described under “—*Enforcement.*”

14. RISK FACTORS

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

For the year ended December 31, 2015, our operations in Spain accounted for 34.9% of our consolidated net operating revenues and 29.4% of our consolidated 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 20.9% in December 2015 and the gross domestic product contracted in 2012 and 2013 before making a modest recovery in 2014 and 2015. 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 since 2013 the Spanish economy has been experiencing a modest recovery, continued concerns about the political uncertainty, unemployment and the availability and cost of credit pose risks for the recovery of the Spanish economy. As a result, any new significant economic downturn could have a material adverse effect on our results of operations and financial condition.

Our results of operations are also dependent on the economic conditions of other markets in which we operate, including Italy, Argentina, Panama, Colombia and other parts of Latin America, some of which have experienced declines recently and during various periods in the past decade. Italy was in an economic downturn from 2011 to 2014 and recorded relatively flat GDP growth in 2015. Furthermore, Argentina defaulted on its sovereign debt in 2014 and has experienced in recent years high levels of inflation, significant depreciation of its currency and an economic downturn. Our business is particularly sensitive to reductions in discretionary consumer spending, which may be affected by such negative economic conditions. Economic contraction, economic uncertainty and the perception by our customers of weak or weakening economic conditions may cause a decline in demand for entertainment in the forms of the gaming services that we offer. In addition, changes in discretionary consumer spending or consumer preferences could be driven by factors such as an unstable job market or perceived or actual disposable consumer income and wealth. Economic downturns and volatility in the various markets in which we operate may adversely affect our results of operations and financial condition.

There are risks associated with our operations outside of Spain.

For the year ended December 31, 2015, net operating revenues and EBITDA from our operations outside of Spain accounted for 65.1% of our consolidated net operating revenues and 70.6% of our consolidated EBITDA, respectively. We have operations in nine countries outside of Spain, including Italy and Morocco and seven countries in Latin America. Over the past ten years, we have expanded our operations into Latin America and Italy and may continue to expand selectively into new geographic markets. Pursuing this strategy has placed and may continue to place us in new markets and businesses in which the gaming industry and taxation and related regulatory environment are, in many

cases, less developed than in Spain. See “*Regulation.*” Taxes on slot machines or other gaming activities may be created or increased or new and more detailed regulations may be enacted. These tax increases or regulatory changes could increase our cost of regulatory or tax compliance and could have a material adverse effect on our operations. For example, the profitability of the Italian 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 5.5%. See “*Regulation.*” Our Italian slots and VLT businesses have also been adversely impacted by other tax increases and are subject to unpredictable regulatory developments. While we regularly re-assess and re-negotiate 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 64.9% of consolidated EBITDA, is in Latin America, including Argentina, Panama, Colombia, Costa Rica, Mexico, Dominican Republic and Peru. In these markets, we are often exposed to substantial political, economic and currency risks because the governments, economies and currencies of many of these countries are more volatile than the countries of the European Union. 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 2014 and 2015. 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. 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 euros, exchange rate movements between the euro and the other relevant currencies have in the past adversely impacted, and may continue to adversely impact, our results of operations. For example, 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, 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.

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

We currently depend, and we expect to continue to depend, on our Buenos Aires riverboat casino business to generate a significant portion of our revenues and EBITDA. Our main Argentine subsidiary, Casino Buenos Aires S.A., contributed approximately 12.1% of our consolidated EBITDA in the year ended December 31, 2015. In addition, we have made significant investments in our Rosario casino, in which we hold a 50% equity interest. Pursuant to IFRS 11, we fully consolidate the results of operations of *Casino de Rosario*, which on this basis accounted for 11.7% of our consolidated EBITDA in the year ended December 31, 2015. We are additionally party to certain strategic arrangements with another Argentine casino operator, Casino Club, with respect to our Argentina business. In the future we may increase our exposure to the Argentine market through further acquisitions and/or expansion. See “*Business—Strategic Arrangements in Argentina*” and “*—We do not control certain of our businesses.*”

Our businesses in Argentina are subject to a wide variety of risks, including the risk of adverse legal and regulatory developments, political, social or economic instability in Argentina, further devaluation or depreciation of the Argentine peso, effects of past and future defaults of Argentina on its sovereign debt, expropriations of businesses, restrictions on transfer of funds and various operational risks.

Legal and Regulatory Risk. The License. The validity of the license granted to us by the State Lottery of Argentina (*Lotería Nacional Sociedad del Estado*) for the operation of our casinos in Buenos Aires has been subject to long-standing local governmental challenge and related litigation and a settlement agreement with respect to those proceedings has recently expired. The City of Buenos Aires has alleged that the State Lottery of Argentina did not have the authority to issue our gaming license. In 2003, the City of Buenos Aires and the State Lottery of Argentina entered into a settlement agreement, in which the parties agreed (i) that the State Lottery of Argentina has the regulatory authority over our casinos in Buenos Aires, (ii) a method for the distribution of gaming royalties and related fees between them, and (iii) to the termination of all pending litigation between them, in each case, without acknowledgement by either party of any underlying rights. The settlement agreement acknowledged the extension of the term of the license to 2019 and our right to open a second riverboat casino at the same site. The settlement agreement had a four-year renewable term, and either the State Lottery of Argentina or the City of Buenos Aires could terminate the settlement agreement by giving notice within 120 days prior to the expiration of any four-year period. On May 22, 2015, the City of Buenos Aires sent a notice to the State Lottery of Argentina indicating its intention not to extend the term of the settlement agreement after December 2015, the scheduled expiration date. Following expiration of the settlement agreement in December 2015, we have not been aware of any discussions between the City of Buenos Aires and the State Lottery of Argentina regarding a renewal of the settlement agreement or the entry into other arrangements to replace the settlement agreement entered into in 2003 (and subsequently amended). If the City of Buenos Aires decides to initiate new legal proceedings challenging the State Lottery of Argentina's regulatory authority over our casinos in Buenos Aires, or otherwise interferes with its operation, we believe we may be able to prevent such interference under temporary restraining orders issued at our request and currently in force against the City of Buenos Aires, or by requesting new restraining orders in the future. However, we cannot assure you that any such temporary restraining orders will be granted or enforced. If the City of Buenos Aires challenges the continuing validity of the license, we cannot assure you that the validity of the license will be upheld. Our Argentine counsel has advised us that proceedings challenging the validity of the license may take six to 10 years to conclude.

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

In March 2005, in response to a complaint brought by an individual against the City of Buenos Aires, a City court in the City of Buenos Aires ruled that the settlement agreement was void and that the law ratifying the settlement agreement was contrary to the constitution of the City of Buenos Aires, and ordered that our first riverboat casino in Buenos Aires, Estrella de la Fortuna, be closed. The City of Buenos Aires appealed this decision in proceedings to which we were not a party, and we additionally requested that the Argentine Federal Court issue injunctions against the Buenos Aires City court order. On March 27, 2006, the City court of the City of Buenos Aires ordered that our second riverboat, Casino Princess, be closed. Upon our urgent request, the Federal Court issued various orders upholding the ruling issued in the Federal Court case and ordering the immediate re-opening of the second riverboat. On October 6, 2006, the Supreme Court of the City of Buenos Aires (the highest court of the city of Buenos Aires) held that the legal proceedings pursuant to which the City court had declared void the settlement agreement between City of Buenos Aires and the State Lottery of Argentina were null and void. See "*Business—Litigation.*"

Municipal Turnover Tax. The City of Buenos Aires has claimed that the riverboat casinos in Buenos Aires are subject to a so-called municipal turnover tax and has made several attempts to inspect our premises in Buenos Aires in order to obtain the necessary evidence and information to be able to assess and collect such tax. We do not believe that we are subject to the turnover tax on a variety of grounds. Among other things, it is our position that the riverboat casinos are not located within the jurisdiction of the City of Buenos Aires. Under the provisions of an amendment made in December 2013 to the settlement agreement between the City of Buenos Aires and the State Lottery of Argentina, Casino Buenos Aires made certain additional payments to the State Lottery earmarked for the City of

Buenos Aires. Upon the receipt of these funds, the City of Buenos Aires was to extinguish its various claims related to the payment of the municipal turnover tax and any other specific taxation on gaming activities conducted by our riverboat casinos. However, implementation of this amendment was subject to the approval of various Argentine governmental bodies, and the ratification by the National Executive Branch never occurred. See “*Business—Litigation—Litigation in connection with the casino license—Amendment to the Settlement Agreement.*” If we were found to be subject to such tax and required to pay such tax, it could have a material adverse effect on our results of operations.

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

Political and Currency Risk. Over the past fifteen years, the Argentine economy has experienced several severe recessions and has undergone periods of political and social unrest and uncertainty. In 2002, the abandonment of the U.S. dollar — Argentine peso parity led to a significant depreciation of the Argentine peso against major international currencies. In recent years, the Argentine peso has generally depreciated against the euro (36.7% over the course of 2015) and the U.S. dollar and the inflation rate has increased. During December 2015, there was a 38.5% depreciation of the Argentine peso against the euro, due primarily to the relaxation of foreign exchange controls following the 2015 election of a new government. The exchange rate was approximately Ps. 14.2 per euro as of December 31, 2015. Solely for the sake of illustrating their potential impact, based on various assumptions, we estimate that the initial net effect of this sudden Argentine peso devaluation could negatively impact our EBITDA by approximately €20 million in 2016 (after accounting for related Argentine inflation), but we expect that this impact would decrease in subsequent years if the exchange rate normalizes. There can be no assurance as to validity of our assumptions or the accuracy of this estimate.

Upon the abandonment of the U.S. dollar — Argentine peso parity in January 2002, the Argentine government implemented measures attempting to address its effects, recover access to financial markets, restore liquidity to the financial system, reduce unemployment and generally stimulate the economy. Although general political, economic and social conditions in Argentina improved since 2003, significant uncertainties remained regarding the country’s economic and political future, including a default on its sovereign debt in 2014. There were a number of negative economic and political developments since 2008 and more recently that have increased the level of uncertainty. Most recently, after the new president assumed office in December 2015, the relaxation of currency exchange controls has dramatically impacted the value of the Argentine peso and could have further repercussions. The country has experienced high rates of inflation in recent years and it is possible that Argentina will enter a deeper recession and experience higher levels of inflation, unemployment and political and social unrest in the future. Argentine government measures concerning the economy, including measures related to inflation, interest rates, foreign exchange controls, currency exchange rates and privatization measures have had and may continue to have a material adverse effect on private sector entities, including *Casino Buenos Aires* and *Casino Rosario*. For example, in recent years, the former government of Argentina took various measures that troubled foreign investors, including the default on its sovereign debt in 2014 and the nationalization of YPF S.A., one of the largest oil and gas producers in Argentina. In June 2012, there were reports in the Argentine media regarding the possible nationalization of the private sector gaming industry, and there have been subsequent reports in the Argentine media of statements by certain prominent political figures regarding possible nationalization. We have not received any communication neither from the former Argentine government nor the Argentine government that assumed office in December 2015 in this regard, and are unaware of any plans regarding a proposed change of ownership. The newly elected government will be the presiding government when our existing license to operate our riverboat casinos in Buenos Aires is due for renewal and while we have contacted the relevant Argentine regulatory bodies to discuss the process for this renewal (in addition to our day to day operations), we have not yet received a response to our enquiries. We cannot guarantee the Argentine government will continue to permit private sector gaming in the country.

Restrictions on transfer of funds. In 2001 and 2002, the Argentine government imposed a number of monetary and currency exchange control measures that included restrictions on the disposition of funds deposited with banks and restrictions on transferring funds abroad. In October 2011, the Argentine government introduced additional restrictions in connection with the transfer of funds. As a consequence of these restrictions, the transfer of U.S. dollars out of Argentina required

prior government approval and was therefore subject to prevailing political and fiscal conditions at the time such transfer request was made. Consequently, we incurred significant transactional costs when transferring funds out of Argentina. However, in December 2015, after the change of government, the new Central Bank authorities issued new rules which repealed a significant part of the existing foreign exchange restrictions. Even though restrictions have been eased significantly, if the new government imposed new restrictions and we were unable to repatriate funds from Argentina, we would not be able to use the cash flow from Casino Buenos Aires and our other Argentine businesses to finance our operating requirements elsewhere and satisfy our debt obligations, including the notes.

The new government has also relaxed restrictions governing the transfer of funds into Argentina. For example, the mandatory waiting period was reduced from 365 days to 120 calendar days and the mandatory deposit was reduced to zero percent. There can be no assurance that the restrictions are not reinstated in the future or that the relaxation of these restrictions will not negatively affect or disrupt the economy of Argentina and fail to benefit or harm our operations in Argentina.

Operational Risks. Dockside and riverboat facilities are subject to risks, in addition to those associated with land-based casinos, relating to weather, flood or mechanical failure and must comply with applicable regulations. Gaming operations conducted on riverboat casinos or at dockside facilities could be lost from service for a variety of reasons, including terrorism, casualty, forces of nature, movement of vessels, mechanical failure, extended or extraordinary maintenance or labor disputes. Our riverboats must also comply with various regulatory requirements as to boat design, on-board facilities, equipment, personnel and safety.

We do not control certain of our businesses.

We operate a number of our businesses through strategic partnerships, joint ventures and alliances. For example, we have entered into a *Unión Transitoria de Empresas* (“UTE”) agreement with a local partner with respect to the operation and development of our gaming operations in the City of Buenos Aires. We also hold a 50% equity interest in *Casino de Rosario* in Argentina and a 50% share in two bingo halls in the province of Buenos Aires. Under the agreement with our local partners for the operation of these Buenos Aires bingo halls, our economic share in the bingo halls fluctuates relative to our investment in the bingo halls’ operations during a specified time period. Since January 2015 our share in the Buenos Aires bingo halls has been increased to 50% from its previous level of 33%. We are party to a 50:50 joint venture with Ladbrokes 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 *Casino de Rosario*, the *Majestic Casino* in Panama or the VLT joint venture in Italy, due to the requirements of IFRS 11, since January 1, 2014 we have fully consolidated 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 reasonable terms or at all. For example, under recent amendments to the Spanish Capital Companies Act (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*) applicable to unlisted companies and expected to come into force on January 1, 2017, from the fifth financial year following registration of a Spanish company in the Commercial Registry, a member voting in favor of distribution of profits will be entitled to withdraw ownership if the general meeting does not resolve to distribute at least one third of legally distributable operating corporate profits obtained during the prior financial year. Under such circumstances, we might seek or be required to acquire the ownership interests of our partners.

We may experience significant losses with respect to individual events or betting outcomes in our Sportium joint-venture with Ladbrokes 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 Ladbrokes 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.

Our operations, including our on-line 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 CdC and the AAMS. In 2013, we resolved the CdC litigation by paying a €37.5 million (final settlement payment of €36.0 million plus €1.5 million of interest) and the presiding court in the AAMS litigation ruled in our favor rejecting the AAMS claims (which ruling was appealed and upheld). In 2015, the AAMS 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 "AAMS Determination"). We paid €7.9 million of the AAMS Determination in April 2015 and a further €10.0 million in October 2015. There is an additional €1.9 million of the AAMS Determination left to be paid which is being collected from certain operators. 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. Recently, the Prime Minister of Italy, Matteo Renzi has expressed a desire to reduce the number of VLTs in Italy and the Italian Treasury has been instructed 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*".

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 2016 Italian Stability Law calls for Italy's 210 existing bingo concessions to be reviewed by the AAMS 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 upon a change of control or if determined to be against the public interest. For example, our license may be revoked if we fail to pay the applicable fees to the regulatory authority or, in certain cases, if we fail to communicate to the regulatory authority certain changes in our corporate structure. Under several of our licenses the transfer of the ownership of the license agreement is prohibited or restricted. In addition, under our licenses we are not entitled to compensation for our initial investment or loss of anticipated profits in case of early termination as a result of a breach of terms.

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

We entered the on-line gaming business in Spain and Italy (our Italian on-line gaming operations have since been terminated) during 2012, after obtaining the necessary permissions and licenses. Our on-line operations are now conducted through our *Sportium* joint venture. In 2012, one of our competitors, Codere, challenged the granting of our Spanish on-line gaming licenses, as well as those of thirteen other gaming operators. While Codere withdrew the action in February 2013, we cannot predict if the challenges made by Codere will be resumed at a later time, and if resumed, whether such challenge will be successful. See “*Regulation—Spain—On-line Gaming.*” Failure to maintain these licences could negatively impact our financial condition and results of operations. We are working together with third-party 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 on-line gaming rules, laws and regulations or we may not be able to successfully block users resident in countries which restrict or prohibit on-line gaming or in which we are not licensed to conduct on-line gaming operations, such as the United States, from accessing our on-line gaming sites. Failure to comply with such rules, laws and regulations or block such users could place us in breach of licenses or key contracts or result in civil, criminal or administrative proceedings, injunctions, fines and penalties and substantial litigation expenses that could strain our management resources and may adversely affect our results of operations and financial condition.

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

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

There can be no assurance that the technology we are currently using 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.

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

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

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

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

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

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

We intend to 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 on-line gaming in Spain and Italy (our Italian on-line 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 on-line gaming platform which we have since sold to our *Sportium* joint-venture with Ladbrokes PLC and in which we have yet to generate positive EBITDA. We have also recently completed the purchase of a majority stake in one casino in Morocco for approximately €22.0 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 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, Argentina and other Latin American markets and adjacent geographic areas, we may face competition from other forms of gaming, such as bingo halls, lotteries and on-line 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 dominated by a few large companies, we compete with a large number of regional bingo hall operators. Our principal competitors, each of which is substantially smaller than us, are Grupo Bingo Reunidos, Grupo Ballesteros, Grupo Rank and Grupo Orenes Franco. In addition, we estimate that independent owners operate several hundred bingo halls throughout the country. In Mexico, we compete with other licensed and unlicensed bingo hall operators. Operators of bingo halls also face competition from other forms of gaming.

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

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

Technological Change. Constant innovation is particularly important in the manufacture of slot machines, because they have a short commercial life. For instance, we believe that the average

commercial life of an installed slot machine (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 on-line 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 on-line gaming may render our products obsolete or oblige us to incur significant capital expenditures to meet customer demand. Changes in consumer preferences and any inability on our part to anticipate and react to such changes could result in reduced demand for our offerings and erosion of our competitive and financial position. Gaming competes with other leisure activities as a form of consumer entertainment, and may lose popularity as new leisure activities arise or as other leisure activities become more popular. The popularity and acceptance of gaming is also influenced by the prevailing social mores, and changes in social mores could result in reduced acceptance of gaming as a leisure activity. To the extent that the popularity of gaming in traditional gaming establishments declines as a result of either of these factors, the demand for our gaming offerings may decline and our business may be adversely affected.

Our success is dependent on maintaining and enhancing our brand.

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

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

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

We are exposed to the risk of money laundering and fraudulent activities by our customers and third parties, including collusion between online customers and the use of sophisticated computer programs that play poker and other skill games automatically in our on-line gaming 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 customer from money laundering and fraud activities, we could be subject to criminal sanctions and administrative fines and could directly suffer loss or lose the confidence of our customer base, which could have a material adverse effect on our business, results of operations, and financial condition. Failure by us to comply with such provisions could result in the imposition of criminal sanctions on our directors and/or administrative and civil fines on us, penalties, revocation of concessions and licenses and operational bans, and therefore have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

We are exposed to the risk of strikes, work stoppages and other industrial actions. We estimate that approximately 15% of our employees are members of labor unions. Nevertheless, in the future we

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

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

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

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

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

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

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

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

Certain countries in which we operate have been subject to significant security issues in the past several years, and if such issues continue or worsen, our operations and proposed expansion plans in such countries could be materially adversely affected. For example, in the past several years, Mexico has experienced increased criminal violence, primarily due to the activities of organized crime. High crime rates and violence resulting from organized crime are particularly acute in several areas of Mexico in which we operate. The gaming hall of an illegal bingo hall operator in Monterrey, Mexico,

was the subject of organized-crime-related arson. This event negatively affected our operations in Mexico through reduced attendance at our gaming halls as well as through the temporary closure of certain other halls as a result of widespread government inspections. In response to the surge in criminal activity, the Mexican government has implemented various security measures and strengthened its military and police forces. Despite these efforts, crime rates remain high. We recently 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.

Our results of operations are impacted by fluctuations in foreign currency exchange rates

We record our financial results in euro, however, our operations in Latin America are conducted in the functional regional currencies of their operating locations. Consequently, our revenues and expenses, as recorded in euro, will fluctuate as a result of currency exchange rate fluctuations between these regional currencies and the euro. For example, the recent strengthening of the U.S. dollar against the euro has boosted the financial performance of certain of our Latin American operations when consolidated in euro. This strengthening has offset the significant decline in the Colombian peso relative to the euro. A lower strength of the U.S. dollar or a depreciation of the dollar relative to the euro would have negative effects on the results of certain of our Latin American operations which may be exacerbated if they occur in conjunction with a weakening of other Latin American currencies, such as the Argentinean peso or the Colombian peso, relative to the euro. We can provide no assurance that the functional regional currencies of our operations outside of Europe will not fluctuate relative to the euro.

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

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

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

The gaming industry is exposed to negative publicity and attention generated by a variety of sources, including citizen's groups, non-governmental organizations, media sources, local authorities, and other groups and institutions. In particular, in recent years, public attention has been drawn to findings or allegations of underground betting and gaming, participation or alleged participation in gaming activities by minors, the location and concentration of gaming machines, the features of certain types of gaming machines (such as fixed odds betting terminals), risks related to social ills such as addiction to gaming and risks related to data protection and payment security in connection with online gaming. In addition, publicity regarding social issues related to the gaming industry, even if not directly connected to us and our businesses, could adversely impact our business, financial condition and results of operations. If the perception develops that the gaming industry is failing to address such concerns adequately, the resulting political pressure may result in the gaming industry becoming subject to increased regulation or taxation. Future increases in regulation or taxation could adversely impact our reputation, business, results of operations and financial condition.

Risks relating to the Notes

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

We have substantial debt and debt service obligations. As of December 31, 2015, after giving *pro forma* effect to the issuance of the 2021 notes and the application of the estimated proceeds thereof, we would have had € 1,091.4 million of total debt. Our total level of debt has increased over the last

several years. Our substantial debt could have important consequences to you, including, but not limited to:

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

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

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

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

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

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

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

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

In addition, the availability and the terms of external financing were affected by the credit crisis that started in the summer of 2007. In addition, negative developments with respect to Eurozone

financial markets, as well as the increased volatility in global capital markets as a result of lower oil prices and the slowdown of the economies of China and other emerging markets, may have an impact on the cost of bank financing in Spain and Italy and other markets, particularly in Latin America. This could adversely impact our ability to service or refinance our debt, including the notes and to fund our other liquidity needs.

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

The indentures governing our notes and the agreements governing some of our other indebtedness (including the indenture governing the 2023 notes) contain covenants which impose significant restrictions on the way we and our subsidiaries can operate, including restrictions on our and our subsidiaries' ability to:

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

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

The indentures governing the notes permit us to incur future debt that may have substantially the same or more restrictive covenants. A senior credit facility may require us to maintain specified financial ratios and satisfy specified financial tests and to observe covenants that are more restrictive than the covenants under the indentures governing the notes. Our ability to meet these financial ratios and tests may be affected by events beyond our control and, as a result, we may not be able to meet these ratios and tests. In the event of a default under such senior credit facility, the lenders could terminate their commitments and declare all amounts owed to them to be due and payable. Borrowings under other debt instruments, such as the Revolving Credit Facility (which following the repayment and discharge of the 2018 notes may be increased to up to € 200.0 million in available debt) and the 2023 notes contain cross acceleration or cross default provisions, which may, in the event of a default under another debt facility, also be accelerated and become due and payable. We may be unable to pay these debts in such circumstances.

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

Cirsa Funding is a finance subsidiary that was formed by Cirsa in order to offer and issue debt securities. The Issuer conducts no business operations of its own, and has not engaged in, and will not be permitted to engage in, any activities other than the issuance of the 2021 notes, the 2023 notes, the 2018 notes and certain other indebtedness, the lending of the gross proceeds from such issuances to Cirsa, which is the borrower under the funding loans, and the servicing of its obligations under the notes and any such other indebtedness. The Issuer has no subsidiaries, and its only material asset and only source of revenue is its right to receive payments from Cirsa under the funding loans for the notes (which funding loans relating to the 2018 notes will be repaid in full and cancelled in conjunction with the redemption of the 2018 notes). The ability of Cirsa Funding to make payments on the notes is therefore entirely dependent on the cash flows received under its funding loans. If the payments under such funding loans are not made by Cirsa, for whatever reason, the Issuer does not expect to have any

other sources of funds available to it that would permit it to make payments on the notes. In such circumstances, holders of the notes would have to rely upon claims for payment under the Guarantees, and payment under the Guarantees is subject to the risks and limitations described in “—*Fraudulent conveyance laws and other limitations on the enforceability and the amount of the Guarantees may adversely effect the validity and enforceability of the Guarantees.*”

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

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

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

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

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

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

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

Under Spanish Law 22/2003, dated July 9, 2003, as amended (the “Insolvency Law”), each of the funding loans between the Issuer of the notes and Cirsa will be classified as subordinated claims of Cirsa, meaning that in an insolvency proceeding they would be subordinated to the preferential and ordinary claims of Cirsa.

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

Not all of our existing and future subsidiaries have guaranteed, or will guarantee, the notes. In particular, none of the subsidiaries in our Latin American businesses (other than Gaming & Services de Panama, S.A.) will guarantee the notes. The indentures governing the notes do not limit the transfer of assets to, or the making of investments in, any of our restricted subsidiaries, including our non-guarantor subsidiaries. Accordingly, non-guarantor subsidiaries could account for a higher portion of our assets, liabilities, net sales and net income in the future.

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

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

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

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

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

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

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

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

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

Under the indentures governing the notes, the 2023 notes are guaranteed by Cirsa Italia and Cirsagest for a maximum amount of €35.3 million and €23.2 million, respectively, and the 2021 notes are guaranteed by Cirsa Italia and Cirsagest for a maximum amount of €42.6 million and €2.0 million, respectively. The maximum amount guaranteed under the Guarantee issued by either of Cirsa Italia or Cirsagest might be subject to reduction under the indentures governing the notes in order to comply with the Italian law corporate benefit provisions.

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

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

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

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

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

The following is a brief description of certain aspects of insolvency law in Spain, Italy, Panama and Luxembourg. In the event that any one or more of the Issuer, Cirsa, the other Guarantors or any other of Cirsa's subsidiaries experienced financial difficulty, it is not possible to know with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings.

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

Spanish Insolvency Law regulates court insolvency proceedings, as opposed to out-of-court liquidation, which is only available when the debtor has sufficient assets to meet its liabilities.

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

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

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

- Claims benefiting from special privileges, representing security on certain assets (basically *in rem* securities). These privileges may entail separate proceedings, though subject to certain restrictions derived from a waiting period that may last up to one year. Privileged creditors are not subject to the restructuring arrangement, except if they give their express support by voting in favor of the restructuring arrangement. In the event of liquidation, they are the first to collect payment against the assets on which they are secured.
- Claims benefiting from general privileges, including among others labor and public debts. Public debts, other than those corresponding to tax withholdings and certain social

security obligations, and debts held by the creditor taking the first initiative to apply for the corresponding insolvency proceedings, are recognized for half their amount. The holders of general privileges are not to be affected by the restructuring provided for the insolvency proceedings if they do not agree to the restructuring arrangement and, in the event of liquidation, they are entitled to collect payment before ordinary and subordinated creditors, in the order established under law.

- Ordinary claims (non-subordinated and non-privileged creditors) such as ordinary commercial suppliers of the company. They will be paid on a pro rata basis.
- Subordinated claims (thus classified by virtue of an agreement or pursuant to law). Subordinated claims include, among others, those credits held by parties in special relationships with the debtor: in the case of an individual, his/her relatives; in the case of a legal entity, the administrators, group companies and any shareholders holding more than 5% (for companies which have issued securities listed on an official secondary market) or 10% (for companies which have not issued securities listed in an official secondary market) of the share capital. Subordinated creditors are second level creditors; they may not vote on an arrangement and have very limited chances of collection, according to the ranking established by law. Under Spanish Insolvency Law, the funding loan between Cirsa and the Issuer will be treated as subordinated claim.
- Claims against the estate of the debtor. These include any claims of the debtor accrued after a judicial decision declaring the insolvency proceeding (e.g. those entered into order to continue the business) as well as other claims prescribed by law, such as claim of salaries (including salaries accruing during the last 30 days before the insolvency proceeding are initiated and in an amount not exceeding two times the minimum professional salary) and judicial costs and expenses caused by the insolvency proceeding. These claims are immediately payable or payable when accrued, although the insolvency law authorizes the court receivers to alter such rule postponing payment of some of such claims when it is presumed that all claims against the estate will be paid and they deemed such delay convenient to the interest of the insolvency proceeding.

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

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

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

Royal Decree 4/2014 and most recently, Royal Decree 11/2014 introduced a substantial reform of the Spanish Insolvency Law, focusing on pre-insolvency instruments, refinancing agreements and arrangements ("*convenios*").

The key issues addressed by the aforementioned Royal Decree 4/2014 are as follows:

- No enforcement of security in pre insolvency scenarios: Spanish Insolvency Law already included a notification system for distressed companies, when negotiations with creditors had been started for the purposes of agreeing a restructuring agreement, which suspended the obligation of the insolvent company to file for insolvency in a period of four months. Royal Decree 4/2014 has introduced a limitation for secured creditors to enforce their security given that the abovementioned notification has been made, and the secured assets are needed for the continuity of the business activity of the debtor.
- Protected restructuring agreements: The protected restructuring agreements were introduced in the Spanish Insolvency Law in 2011 in order to establish a “safe harbour” for restructuring processes, so the claw-back period did not affect them and the transactions carried out under these restructuring agreements were not subject to scrutiny and potential annulment when the company became insolvent. However their success has been limited given certain constraints previously included in the law. The reform carried out by Royal Decree 4/2014 is aimed to further encourage the use of these pre insolvency agreements by introducing a new regime, which can be summarized as follows:
 - The requirement of an independent expert report which sanctioned the restructuring agreement has been substituted by a certificate issued by the company’s auditor stating that creditors party to the agreement represent, at least 60% of the debt (financial and non-financial) of the relevant company.
 - Fresh money injected into a company under the restructuring agreement is granted a privileged status, superior to that of ordinary credits. This privilege is also extended to funds injected by the shareholders, as long as it is not achieved through a capital increase. However, this special regime will be applicable only to those restructuring agreements executed within the next 2 years from the entry into force of Royal Decree 4/2014.
 - Creditors who, pursuant to a restructuring agreement, capitalize their debt and become shareholders will not have their claims existing from their refinancing agreements subordinated to ordinary creditors upon insolvency of the company. The directors of the company who unreasonably reject such capitalization might be declared personally liable, as long as the capitalization is needed for other creditors to enter into a restructuring agreement and the current shareholders are granted a preferential acquisition right over the shares awarded to the creditors, once the relevant creditors decide to sell them.
 - Spanish “schemes of arrangement”: the restructuring agreements described above are designed to protect the actions carried out pursuant to them from the claw-back period upon insolvency of the company, but are only applicable to those creditors who are party to them. Creditors who are not party to such restructuring agreements are not affected by them, save for certain exceptions. The main features of such new regime are the following:
 - (a) The relevant court must approve the restructuring agreements which (i) extend or modify the existing debt or increase the facilities available to the debtor, (ii) are supported by a viability plan of a company for the short and medium term, and (iii) are approved by creditors representing, at least, 51% of the financial debt of the relevant company (regardless of the creditors being or not financial institutions). In case of syndicated facilities, it will be understood that all syndicated lenders have approved the restructuring agreement when it is voted by lenders representing at least 75% of the syndicated debt (unless the facility agreement itself contemplates a lower threshold for such purposes).
 - (b) The restructuring agreement, once approved by the relevant court, will be binding on the creditors who are party to it but also to other financial creditors, on the following terms:
 - (i) If the agreement has been approved by creditors representing, at least, 60% of the financial debt, it will be binding on the remaining financial creditors in relation to principal or interest stay periods (up to 5 years) and the

conversion of financial debt into profit participation loans (“*préstamos participativos*”) (up to 5 years tenure). The creditors affected will be those which are considered unsecured creditors or secured creditors whose credits exceed the value of the relevant security (although the latter only in relation to such excess).

- (ii) If the agreement has been approved by creditors representing, at least, 75% of the financial debt, it will be binding on the remaining financial unsecured creditors or secured creditors whose credits exceed the value of the relevant security (although the latter only as regards such excess credits), in relation to:
- principal or interest stay periods (between 5 and 10 years);
 - cancellation of financial debt;
 - capitalization of financial debt;
 - conversion of financial debt into profit participation loans, convertible obligations, subordinated debt or any other instrument with different ranking, tenor or characteristics (between 5 and 10 years tenor); and
 - debt for assets swap.
- (iii) As regards secured creditors, in relation to the part of their debt which does not exceed the value of the security instrument, they will be bound by the restructuring agreement:
- if such agreement is approved by secured creditors representing at least 65% of the value of the total security, only in relation to principal or interest stay periods (up to 5 years) and the conversion of financial debt into profit participation loans (up to 5 years tenor); and
 - if such agreement is approved by secured creditors representing at least 80% of the value of the total security, in relation to:
 - principal or interest stay periods (between 5 and 10 years);
 - cancellation of financial debt;
 - capitalization of financial debt;
 - conversion of financial debt into profit participation loans, convertible obligations, subordinated debt or any other instrument with different ranking, tenor or characteristics (between 5 and 10 years tenor); and
 - debt for assets swap.

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

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

Under the Italian Bankruptcy Law, bankruptcy must be declared by a court, based on the insolvency (*insolvenza*) of a company. Insolvency occurs when a debtor is no longer able to regularly

meet its obligations as they become due. This must be a permanent, and not a temporary, status in order for a court to hold that a company is insolvent.

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

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

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

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

Out-of-court debt restructuring agreements are based on reorganization plans (*piani di risanamento attestati*) prepared by companies, usually with the assistance of third party advisors, in order to restructure their indebtedness and to ensure the restoration of their financial condition. An independent expert (who has to meet the requirements set out in Article 67, Paragraph 3(d) of the Italian Bankruptcy Law) appointed by the debtor has to verify the feasibility of the reorganization plan and the truthfulness of the business data provided by the company.

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

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

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

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

Pursuant to the new Article 182 *quinquies* of the Bankruptcy Law, the Court, pending the sanctioning (*omologazione*) of the agreement pursuant to Article 182-bis, paragraph 1, or after the filing of the instance pursuant to Article 182-bis, paragraph 6, or a petition for a *concordato preventivo*, also pursuant to Article 161, paragraph 6, and also before the submission of the underlying plan and all relevant documentation, may authorize the debtor to incur in new indebtedness deductible, provided that the expert appointed by the debtor declares the aim of the new financial indebtedness results in a better satisfaction of the creditors, and to pay debts deriving from the supply of services or goods, already payable and due, provided that the expert declares that such payment is essential for the keeping of company's activities. In case of urgency, the court, pending the sanctioning (*omologazione*) of the agreement pursuant to Article 182-bis, paragraph 1, or after the filing of the instance pursuant to

Article 182-*bis*, paragraph 6, or a petition for a *concordato preventivo*, also pursuant to Article 161, paragraph 6, may authorize the debtor (i) to maintain discount on bills facilities (*linee autoliquidanti*) or (ii) to incur in the above-mentioned new pre-deductible indebtedness aimed at covering urgent needs to carry out the business until the expiry of the term assigned by the court under Article 161, paragraph 6, or the hearing for the sanctioning of the agreement pursuant to Article 182-*bis*, paragraph 4, or the expiry of the term set out in Article 182-*bis*, paragraph 7 if (a) the purpose of the new facilities is disclosed, (b) the company has no access to alternative financing sources, and (c) the company would suffer imminent and irreparable prejudice to its business should no authorization be granted. The decision should be taken by the court within 10 days from the filing of the application.

In addition, pursuant to the new Article 182-*septies* of the Italian Bankruptcy Law, if at least 50% of the overall indebtedness of the distressed company is owed to banks and financial intermediaries, the company will be able to split such financial creditors into one or more classes having homogeneous legal rights and economic interest. In such circumstance if all the financial creditors of a class have been informed of the beginning of the negotiations for the debt restructuring agreement and put in the condition to participate to such negotiations in good faith and at least 75% in value of the financial creditors of a class accept the debt restructuring agreement, upon the debtor's request all the non consenting creditors pertaining to the same class may be bound by the treatment applicable to their class. However non-consenting financial creditors cannot be forced to commit new money or advance undrawn commitments or perform new obligations (continuation of financial lease agreement can be imposed). The court, before sanctioning the debt restructuring agreement, will have to verify certain requirements in addition to the ordinary one, including the satisfaction of the non-consenting financial creditors for an amount which is not lower than the amount achievable through otherwise available alternatives. Non-consenting financial creditors will be entitled to file a petition with the court to oppose to the sanctioning of the debt restructuring agreement by contesting the compliance of the proposed agreement with the applicable legal requirements.

Furthermore, if between a debtor and one or more banks or financial intermediaries is agreed an interim standstill agreement and the 75% in value of the financial creditors of a class accepts it, the non-consenting financial creditors pertaining to the same class will be bound by the same standstill regime, provided that they have been informed of the beginning of the negotiations and put in the condition to join the same in good faith and an independent expert certifies that classes have been correctly created. Within 30 days from the company communication of the execution of the interim standstill agreement to the non-consenting financial creditors, the latter will be entitled to challenge the application of such agreement to them in front of the court.

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

A debtor (meeting the requirements to be subject to bankruptcy proceeding (*fallimento*)—see below) which is insolvent or in a situation of crisis, but has not been declared insolvent by the court, has the option to make a composition proposal to its creditors, under court supervision, in order to compose its overall indebtedness and/or reorganize its business, thereby avoiding a declaration of insolvency and the initiation of bankruptcy proceedings. The debtor (which has the sole power to do so) can then file a petition with the court for a *concordato preventivo* (attaching, among others, the composition proposal and a report prepared by an independent expert appointed by the debtor assessing the feasibility of the composition proposal and the truthfulness of the business data provided by the company), which from the date published in the companies register, stays enforcement and interim relief actions by the creditors (whose debt arose before the sanctioning of the *concordato preventivo* by the court) are stayed. During this time, pre-existing creditors cannot obtain security interests (unless authorized by the court) and mortgages registered within the 90 days preceding the date on which the petition for the *concordato preventivo* is published in the companies' register are ineffective against such pre-existing creditors.

The composition proposal filed in connection with the petition may provide for: (i) the restructuring of debts and the satisfaction of creditors' claims (including through extraordinary transactions, such as the granting to creditors and to their subsidiaries or affiliated companies of shares, bonds (including bonds convertible into shares), or other financial instruments and debt securities); (ii) the transfer to a receiver (*assuntore*) of the operations of the debtor company making the composition proposal; and (iii) the division of creditors into classes (according to their similar legal standing and economic interests) and providing for different treatment of creditors belonging to

different classes. The composition proposal may also contain a proposed tax settlement for the partial or deferred payment of certain taxes. In any case the composition proposal, except for those on a going concern basis (*concordato con continuità aziendale*), must ensure the payment of at least the 20% of the unsecured creditor's claims.

The filing of the petition for the *concordato preventivo* may be preceded by the filing of a preliminary petition for a *concordato preventivo*. The debtor company may file such petition along with its financial statements from the latest three financial years and a list of its creditors and respective credits pointing out the relevant credit amounts in order to ask the court to set a deadline for the filing of the petition for the *concordato preventivo* (along with all relevant documentation, as outlined above). The court may then set a deadline of between 60 and 120 days from the date of the filing of the preliminary petition, subject to one possible further extension of up to 60 days, where there are reasonable grounds for such extension. Furthermore, in its decree setting the terms for the presentation of the documentation, the court may also appoint the judicial commissioner (*commissario giudiziale*). In advance of such deadline, the debtor may also file a petition for the approval of a debt restructuring agreement (pursuant to Article 182-*bis* of the Italian Bankruptcy Law). The Court, with the decree setting the term set out above, (i) may appoint the judicial commissioner (*commissario giudiziale*) and (ii) shall provide for the periodical information requirements that the debtor has to fulfil. Following the filing of the pre-application and until the decree of admission to the composition with creditors, the debtor may carry out acts pertaining to its ordinary activity and seek the court's authorisation, once received the judicial commissioner (*commissario giudiziale*) opinion (if appointed), to carry out acts pertaining to its extraordinary activity, to the extent they are urgent.

Under Article 169-*bis* the debtor may request authorization to the court—which will have to hear the debtor's counterparty—for the termination of pending agreements. In case of termination the counterparty will be entitled to an indemnification claim which shall rank unsecured against the company while any receivable arising further to the performance of the agreement after publication of the composition proposal shall benefit from super-seniority in case of liquidation. The debtor may also request the authorisation for the suspension of the agreement for no more than 6 months, which may be extended only once. In case of termination of financial leasing agreements, the leasing entity will be entitled to the repossession of the leased asset but, in case the market value of the leased asset is higher than the outstanding leasing debt, the difference will have to be paid to the debtor; on the contrary, if it is lower, the relevant claim will rank unsecured against the debtor.

The composition petition may propose that (i) the debtor's company's business continues to be run by the debtor's company as a going concern; or (ii) the business is transferred or contributed to one or more companies. In both cases, the petition for the *concordato preventivo* should fully describe the costs and revenues which are expected as a consequence of the continuation of the business as a going concern, as well as the financial resources and support which will be necessary. The report of the independent expert shall also certify that the continuation of the business is conducive to the satisfaction of creditors' claims to a greater extent than if such composition proposal was not implemented.

The composition proposal may envisage the transfer or lease of the business and/or assets of the debtor to a predetermined purchaser. In such circumstance the court is required to open a public bid process and, in case of more competing bids on better terms than the original binding offer, a bid process shall be carried out by the court in a public hearing. Further to the sale to a bidder other than the original one, the latter shall be released from its original obligation and shall be reimbursed of the costs incurred for an amount up to 3% of the price set out in the original binding offer.

If the court determines that the composition proposal is admissible, it appoints a judge (*giudice delegato*) to supervise the procedure, appoints one or more judicial officers (*commissari giudiziali*) and calls a creditor's meeting. During the implementation of the proposal, the company generally continues to be managed by its board of directors, but is supervised by the appointed judicial officers and judge.

The implementation of the *concordato preventivo* is voted on at a creditors' meeting and must be approved by the majority (by value of claims) of the creditors entitled to vote and, where there are different classes of creditors, by the majority of classes. Creditors who have not voted may notify their objection via telegraph, fax, mail or e-mail to such proposal within 20 days from the relevant meeting.

Secured creditors are not entitled to vote on the proposal of *concordato preventivo* unless and to the extent they waive their security, or the *concordato preventivo* provides that they will not receive full satisfaction of the fair market value of their secured assets (such value being assessed by an independent expert), in which case they can vote only in respect of the part of their debt affected by the proposal. In particular, if an objection to the implementation of the *concordato preventivo* is filed by a dissenting class or, in the case the proposal does not provide for more classes of creditors, a number of dissenting creditors representing 20% of the credits admitted to vote, the court may nevertheless sanction the *concordato preventivo* if it deems that the relevant creditors' claims are likely to be satisfied to a greater extent as a result of the *concordato preventivo* than would otherwise be the case.

After the approval by the creditors' meeting, the court (having settled possible objections raised by the dissenting creditors, if any) confirms the *concordato preventivo* proposal by issuing a confirmation order.

If the creditors' meeting does not approve the *concordato preventivo*, the court may, upon request of the public prosecutor or a creditor, and having decided that the relevant conditions apply, declare the company bankrupt.

- *Bankruptcy (fallimento).*

A request to declare a debtor bankrupt and to commence a bankruptcy proceeding (*fallimento*) and the judicial liquidation of the debtor company's assets can be filed by the debtor company itself, any of its creditors and, in certain cases, by the public prosecutor. The bankruptcy is declared by the competent bankruptcy court. The Italian Bankruptcy Law is applicable only to commercial enterprises (*imprenditori commerciali*) if certain thresholds are met (i.e. the debtor has had assets (*attivo patrimoniale*) in an aggregate amount exceeding €0.3 million for the last three fiscal years, gross revenue (*ricavi lordi*) in an aggregate amount exceeding €0.2 million for the last three fiscal years and has total indebtedness in excess of €0.5 million).

On the commencement of bankruptcy proceedings:

- all actions of creditors are stayed and creditors must file any claims for their debts within a prescribed period. However, in certain circumstances and subject to certain procedures, some security interests can continue to be enforced, i.e. secured claims are paid out of the proceeds of liquidation of the secured assets, along with the applicable interest and subject to any relevant expenses. Any outstanding balance will be considered unsecured and will rank *pari passu* with all of the bankrupt's other unsecured debt;
- the administration of the debtor company and the management of its assets pass from the debtor company to the bankruptcy receiver (*curatore fallimentare*); and
- any act of the debtor company done after a declaration of bankruptcy (including payments made) is ineffective against the creditors. Although the general rule is that the bankruptcy receiver is allowed to either continue or terminate contracts where some or all of the obligations have not been performed by both parties, certain contracts are subject to specific rules expressly provided for by Italian Bankruptcy Law.

The bankruptcy proceedings are carried out and supervised by a court-appointed bankruptcy receiver, a deputy judge (*giudice delegato*) and a creditors' committee. The bankruptcy receiver is not a representative of any one of the creditors, but is responsible for the liquidation of the assets of the debtor for the satisfaction of the creditors as a whole. The proceeds from the liquidation are distributed in accordance with statutory priority. The Italian Bankruptcy Law provides that the receiver shall present the liquidation plan within maximum 180 days from the opening of the liquidation procedure and the liquidation activities shall be concluded within 2 years from the delivery of the judgment opening the bankruptcy proceeding (in case for specific assets a longer deadline is needed, the liquidator shall have to expressly mention the grounds for such a longer deadline). The failure to comply with such timing requirements constitutes good cause for termination of the receiver appointment. The Italian Bankruptcy Law provides for a priority of payment to certain preferential creditors, including employees, the Italian treasury, and judicial and social authorities.

- *Bankruptcy composition with creditors (concordato fallimentare).*

A bankruptcy proceeding can terminate prior to liquidation through a bankruptcy composition proposal with creditors. The proposal can be filed, by one or more creditors or third parties, from the declaration of bankruptcy. By contrast, the debtor or its subsidiaries are only permitted to file such proposal after one year, but within two years following a declaration of bankruptcy. Secured creditors are not entitled to vote on the proposal of *concordato fallimentare*, unless and to the extent they waive their security or the *concordato fallimentare* provides that they will not receive full satisfaction of the fair market value of their secured assets (such value being assessed by an independent expert), in which case they can vote only in respect of the part of their debt affected by the proposal. The proposal may provide for the division of creditors into classes according to their similar legal standing and economic interests (thereby proposing different treatment among the classes), the restructuring of debts and the satisfaction of creditors' claims in any manner. The *concordato fallimentare* proposal must be approved by the creditors' committee and the creditors holding the majority (by value) of claims (and, if classes are formed, also by a majority (by value) of the claims in a majority of the classes). Final court ratification is also required.

- *Statutory priorities.*

The statutory priority given to creditors under the Italian Bankruptcy Law may be different from that established in the United States, the United Kingdom and certain other E.U. jurisdictions. Neither the debtor nor the court can deviate from the rules of statutory priority by proposing their own priorities of claims or by subordinating one claim to another based on equitable subordination principles. The rules of statutory priority apply irrespective of whether the proceeds are derived from the sale of the entire bankrupt's estate or part thereof, or from a single asset.

Article 111 of the Italian Bankruptcy Law establishes that proceeds of liquidation shall be allocated according to the following order: (i) for payments of "pre-deductible" claims (i.e. claims expressly classified as such under the provision of law or originated in the context of insolvency proceeding); (ii) for payment of claims which are privileged or secured creditors; and (iii) for the payment of unsecured creditors' claims.

- *Avoidance powers in insolvency.*

Under Italian law, there are so-called “clawback” or avoidance provisions that may lead to, *inter alia*, the revocation of payments made or security interests granted by the debtor prior to the declaration of bankruptcy. The key avoidance provisions address transactions made below market value, preferential transactions and transactions made with a view to defraud creditors. Clawback rules under Italian law are normally considered to be particularly favorable to the receiver in bankruptcy, compared to the rules applicable in other jurisdictions.

In a bankruptcy proceeding, depending on the circumstances, the Italian Bankruptcy Law provides for a clawback period of up to either one year or six months in the case of intragroup transactions (which, in the context of extraordinary administration procedures, can be extended to five and three years respectively) and a two-year ineffectiveness period for certain other transactions.

In particular, the Italian Bankruptcy Law distinguishes between acts or transactions which are ineffective by operation of law and acts or transactions which are voidable at the request of the bankruptcy receiver/court commissioner, as detailed below.

- *Acts ineffective by operation of law*

Under Article 64 of the Italian Bankruptcy Law, all transactions entered into for no consideration are ineffective against creditors if entered into by the debtor in the two-year period prior to the insolvency declaration. Under Article 65 of the Italian Bankruptcy Law, payments of debts falling due on the day of the declaration of insolvency or thereafter are deemed ineffective against creditors if made by the debtor in the two-year period prior to the insolvency declaration. Any asset which has been subject to such transactions becomes part of the bankruptcy estate by operation of law upon registration of the declaration of bankruptcy.

- *Acts which are voidable at the request of the bankruptcy receiver/court commissioner*

The following acts and transactions, if done or made during the period specified below, may be voided and declared ineffective unless the other party proves that it had no actual or constructive knowledge of the debtor’s insolvency:

- transactions entered into in the year preceding the insolvency declaration, where the value of the debt or of the obligations undertaken by the debtor exceeds by 25% the value of the consideration received by and/or promised to the debtor;
- payments of debts, due and payable, made by the debtor, which were not paid in cash or other customary means of payment in the year preceding the insolvency declaration;
- pledges and mortgages granted by the bankrupt entity in the year preceding the insolvency declaration in order to secure pre-existing debts which have not yet fallen due; and
- pledges and mortgages, granted by the bankrupt entity in the six months preceding the insolvency declaration, in order to secure debts which had fallen due.

The following acts and transactions, if done or made during the period specified below, may be voided and declared ineffective if the bankruptcy receiver proves that the other party knew that the bankrupt entity was insolvent at the time of the act or transaction:

- the payments of debts that are immediately due and payable and any onerous transactions entered into or made in the six months preceding the insolvency declaration; and
- deeds granting security interests over debts (even those of third parties) which are simultaneously created in the six months preceding the insolvency declaration.

Certain transactions are exempt from clawback actions, including, *inter alia*:

- a payment for goods or services made in the ordinary course of business and in accordance with market practice;
- a remittance on a bank account, provided that it does not reduce the bankrupt entity's debt towards the bank in a material and lasting manner;
- a sale, including an agreement for sale registered pursuant to Article 2645-bis of the Royal Decree No. 262 of March 16, 1942 (the "Italian Civil Code"), currently in force, made for a fair value and concerning a residential property that is intended as the main residence of the purchaser or the purchaser's family (within three degrees of kinship) or a non-residential property that is intended as the main seat of the enterprise of the purchaser, on the condition that, as at the date of the purchase, such activity is actually exercised or the investments for the start of such activity have been carried out;
- transactions entered into, payments made and security interests granted with respect to the bankrupt entity's assets, provided that they concern the implementation of a plan which allows for the restructuring of entity's debt and for the improvement of its financial position (*piano attestato*), provided that the plan is feasible and based upon truthful business data provided by the company as determined by an independent expert registered in the accounting auditors' register and eligible to be appointed as bankruptcy receiver as provided by Article 28 of the Italian Bankruptcy Law and by Article 67, paragraph 3, letter d), of the Italian Bankruptcy Law;
- a transaction entered into, payment made or security interest granted to implement a *concordato preventivo* (see paragraph above) or an *accordo di ristrutturazione dei debiti* under Article 182-bis of the Italian Bankruptcy Law (see paragraph above) and transactions entered into, payments made and security interests granted after the filing of the application for a *concordato preventivo* (see above);
- remuneration payments to the bankrupt entity's employees and consultants; and
- a payment of a debt that is immediately due, payable and made on the due date, with respect to services necessary for access to *concordato preventivo* procedures.

In addition, in certain cases, the bankruptcy receiver can request that certain transactions of the bankrupt entity be declared void within the Italian Civil Code ordinary clawback period of five years (*revocatoria ordinaria*). Under Article 2901 of the Italian Civil Code, a creditor may demand that transactions through which the bankrupt entity disposed of its assets to the detriment to a creditor's rights be declared ineffective with respect to such creditor, provided that the bankrupt entity was aware of such detriment (or, if the transaction was entered into prior to the date on which the claim originated, that such transaction was fraudulently entered into by the debtor to its own detriment) and that, in the case of a transaction entered into for consideration with a third person, the third person was aware of such detriment (and, if the transaction was entered into prior to the date on which the claim originated, such third person participated in the fraudulent scheme).

- *Extraordinary administration for large companies (amministrazione straordinaria delle grandi imprese in crisi).*

An extraordinary administration procedure is available under Italian law for large industrial and commercial enterprises (commonly referred to as the "*Prodi-bis*" procedure). The relevant company must be insolvent, but demonstrating serious recovery prospects. To qualify for this procedure, the company must have employed at least 200 employees in the previous year. In addition, it must have debts equal to at least two-thirds of its assets and two-thirds of its income from sales and services during its last financial year.

Either of one or more creditors, the debtor, a court or the public prosecutor may make a petition to commence an extraordinary administration procedure. The rules which apply to such procedure are largely the same rules as those applicable to bankruptcy proceedings. There are two main phases—an administrative phase and a judicial phase.

Administrative phase

In the administrative phase, the court determines whether the company meets the admission criteria and whether it is insolvent. It then issues a decision to that effect and, among others things, appoints up to three judicial receivers (*commissario giudiziale*) to investigate whether the company has serious prospects for recovery via a business sale or reorganization. The judicial receiver files a report with the court within 30 days, and within 10 days from such filing, the Italian Productive Activities Minister (the “Ministry”) may make an opinion on the admission of the company to the extraordinary administration procedure. The court then decides (within 30 days from the filing of the report) whether to admit the company to the procedure or to place it into bankruptcy.

Judicial phase

Assuming that the company is admitted to the extraordinary administration procedure, the judicial phase begins and an extraordinary commissioner (or commissioners) is appointed by the Ministry. The extraordinary commissioner(s), prepares a plan which can provide for either the sale of the business as a going concern within one year (or such other term as extended by the Ministry) (the “Disposal Plan”) or a reorganization leading to the company’s economic and financial recovery within two years (or such other term as extended by the Ministry) (the “Recovery Plan”). The plan may also include an arrangement with creditors (e.g. a debt for equity swap, an issue of shares in a new company to whom the assets of the company have been transferred, etc.) (*concordato*). The plan must be approved by the Ministry.

The procedure ends upon successful completion of either a Disposal Plan or a Recovery Plan, failing which the company is declared bankrupt.

- *Restructuring of insolvent large companies (ristrutturazione industriale di grandi imprese in stato di insolvenza).*

Introduced in 2003, the industrial restructuring of large insolvent companies is also known as the “Marzano procedure”. It is complementary to the *Prodi-bis* procedure and, except as otherwise provided, the same provisions apply. The Marzano procedure is intended to be faster than the *Prodi-bis* procedure. For example, although a company must be insolvent, the application to the Ministry is made together with the filing to the court for the declaration of the insolvency of the debtor.

The Marzano procedure only applies to large insolvent companies which, on a consolidated basis, have at least 500 employees in the year before the procedure is commenced and at least €300 million of debt. The decision whether to open a Marzano procedure is taken by the Ministry following the debtor’s request (who must also file an application for the declaration of insolvency). The Ministry assesses whether the relevant requirements are met and then appoints the extraordinary commissioner(s) who will manage the company. The court decides on the company’s insolvency.

The extraordinary commissioner(s) has/have 180 days (or 270 days if the Ministry so agrees) to submit a Disposal Plan or Recovery Plan. The restructuring through the Disposal Plan or the Recovery Plan must be completed within two years. If no Disposal or Recovery Plan is approved by the Ministry, the court will declare the company bankrupt and open bankruptcy proceedings.

Panama Insolvency Law. Gaming & Services de Panama S.A. will provide a Guarantee of the notes. Under Panamanian law, your ability to receive payment on the notes may be more limited than would be the case under U.S. bankruptcy laws.

In the case of merchants, Panama's insolvency or bankruptcy provisions are set forth mainly in the Code of Commerce, but certain provisions of the Civil Code and the Judicial Code also apply.

Except for certain types of merchants (such as banks), for which special legislation applies, these provisions establish an orderly court supervised liquidation procedure, the objective of which is the apportionment of assets among creditors in accordance with certain legally established rules and priorities. Court ordered reorganizations are not presently available under Panama law.

Under Panamanian law, the state of insolvency of a company must be determined and declared by a court as insolvent. Insolvency exists when a debtor fails to pay any debt, so long as the debt is due, expressed in monetary terms and ascertainable. A petition for such a declaration may be filed before the competent courts either by one or more creditors or the debtor, but the failure of a debtor to make such petition when insolvency exists may lead to criminal prosecution.

In the declaration of bankruptcy the court must establish the date as of which the state of insolvency existed, which usually will coincide with the date the petition seeking a declaration of bankruptcy was filed but may be fixed up to four years plus 30 days prior to the date of the petition.

The date of insolvency is important for establishing the period of time during which certain acts of the debtor may be reviewed and set aside or declared void by the court for the benefit of the bankruptcy estate. Acts that may be set aside or declared void include gratuitous acts, the granting of a security interest or a preference in respect of previously contracted obligations, the pre-payment of debts not yet due, and the payment in kind of debts that are past due.

Upon the declaration of bankruptcy by the court the debtor immediately becomes separated from its assets and cannot administer them or dispose of them; administration of a debtor's assets (the bankruptcy estate) is transferred to its creditors represented by a curator or administrator appointed by the court. Upon such declaration, the debts of the bankrupt, whether commercial or civil, are deemed to be due and payable as of the date the bankruptcy is declared; and all such debts cease accruing interest, except for those secured by pledge or mortgage and then only up to the value of the collateral. All judicial proceedings brought against the bankrupt debtor in any court within the four years prior to the date of the declaration of bankruptcy must be accumulated and dealt with in the bankruptcy proceedings. Any attachments over assets of the debtor which are issued by the bankruptcy court are given preference over attachments previously issued, except for attachments relating to property which is subject to a security interest such as a mortgage or pledge.

The Code of Commerce provides that a guarantor may demand that a creditor pursue the principal debtor and its assets before demanding payment from the guarantor or its bankruptcy. If the bankrupt is a guarantor and the obligations of the principal debtor are not due and payable, the Code of Commerce provides that the principal debtor must either prepay the debt or the bankruptcy estate would be released from the guarantee. In effect, the principal debtor is required to obtain a suitable guarantor to replace the bankrupt guarantor.

The Gaming Control Board of Panama has adopted regulations providing that the judicial administrator of an insolvent company with gaming activities authorized by the Gaming Control Board, such as Gaming & Services de Panama S.A., shall not be permitted to continue to engage in gaming activities, such as the operation of casinos, for the benefit of the creditors, unless previous approval from the Gaming Control Board has been obtained.

The Code of Commerce sets forth the following rules with respect to the application of the bankruptcy estate to the payment of the outstanding obligations: all creditors, whether or not they have a lien or privilege, have the right to be paid from the bankruptcy estate; the payment of credits must be made out of the income derived from the sale of the debtor's assets in accordance with the ranking set out in the Civil Code; secured creditors have the right to receive payment from the sale of the collateral; secured creditors may not participate in the distribution of the bankruptcy estate unless they waive their security interest over the collateral; and secured creditors may nonetheless seek to recover

any unsatisfied portion of their debt from the bankruptcy estate by participating with all of the unsecured creditors on a pro rata basis.

In bankruptcy, the credits will rank as to each other as follows:

- For movable property and assets of the bankrupt, the ranking of credits is:
 - credits for the construction, repair, preservation and appreciation of the sale price of movable property and assets in possession of the bankrupt, up to the value of the same;
 - credits for the transportation of the transported assets, for the price of the same, and preservation expenses and rights; and
 - credits for rents and leases of more than one year, over the movable assets located within the leased or rented property.
- For real estate property, assets and rights of the bankrupt, the ranking of credits is:
 - credits in favor of the Panamanian state in which the real estate is located, over the assets of taxpayers and for the amount of the taxes owed;
 - credits in favor of insurance companies, over the insured assets;
 - mortgage credits registered in the Public Registry, of mortgage assets; and
 - credits that have been pre-emptively registered in the Public Registry, due to a judicial order, attachment or execution of judicial sentence, over the assets that have been affected by said pre-emptive registration.
- Regarding other movable and real estate property, assets and rights of the bankrupt, the ranking of credits is:
 - credits in favor of any municipality for taxes owed by the bankrupt; and
 - credits owed in relation to expenses incurred by the bankrupt for purposes of judicial and administrative management of the insolvency and for the common interest of all creditors.

Bankruptcy proceedings in Panama and therefore the liquidation of a debtor may take a considerable amount of time.

In the event that the Panamanian Guarantor, Gaming & Services de Panama S.A., entered into bankruptcy proceedings, its Guarantee could be challenged. If any challenge to the validity of such Guarantee were successful, holders of the notes may not be able to recover any amounts under the Guarantee provided by Gaming & Services de Panama S.A. Likewise, upon such bankruptcy declaration, the Gaming Control Board could deny the court appointed curator the administration of Gaming & Services de Panama S.A. operation, in which case holders of the notes may not be able to recover any amounts under the Guarantee provided by Gaming & Services de Panama S.A. from operations that could otherwise continue until the bankruptcy proceedings are concluded.

Although, as indicated above, court ordered reorganizations are not presently available under Panamanian law, on March 10, 2016, Panama's National Assembly approved a law, which, if sanctioned by Panama's President, and then published in Panama's Official Gazette, would come into legal effect on January 2, 2017. This law establishes a special reorganization and liquidation regime applicable to merchants (including individuals or legal entities) under Panamanian law (hereinafter, and only if sanctioned by the President of Panama and thereafter published in the Official Gazette, the "Reorganization Law").

Any merchant (the “Debtor”) that faces “payment default” (“*cesación de pagos*”), “imminent insolvency” (“*insolvencia inminente*”) or “foreseeable lack of liquidity” (“*falta previsible de liquidez*”) is subject to special proceedings under the Reorganization Law. The Debtor or its creditors may ask the court for the protection of reorganization or to order the liquidation of the Debtor. If the reorganization process is admitted and so declared by the court, the Debtor enjoys certain protections (such as protection from foreclosures by secured creditors). In the reorganization process, the court oversees the approval of the reorganization agreement proposed by the Debtor and, if approved, its compliance. If not approved, the liquidation of the Debtor may be requested by its creditors.

Luxembourg Insolvency Law. The Issuer, which is incorporated in the Grand Duchy of Luxembourg, will issue the notes. Under Luxembourg insolvency laws, your ability to receive payment on the notes may be more limited than would be the case under U.S. bankruptcy laws. Under Luxembourg law, the following types of proceedings (together referred to as insolvency proceedings) may be opened against an entity having its registered office or centre of main interest in Luxembourg:

- Bankruptcy proceedings (*faillite*), the opening of which may be requested by the company or by any of its creditors. Following such a request, the courts having jurisdiction may open bankruptcy proceedings if the company (i) is in a state of cessation of payments (*cessation des paiements*) and (ii) has lost its commercial creditworthiness (*ébranlement de crédit*). If a court finds that these conditions are satisfied, it may also open bankruptcy proceedings *ex officio* (absent a request made by the company or a creditor). The main effect of such proceedings is the suspension of all measures of enforcement against the company, except, subject to certain limited exceptions, for secured creditors, and the payment of the creditors in accordance with their rank upon realization of the assets.
- Controlled management proceedings (*gestion contrôlée*), the opening of which may only be requested by the company and not by its creditors.
- Composition proceedings (*concordat préventif de la faillite*), which may be requested only by the company and not by its creditors. The court’s decision to admit a company to the composition proceedings triggers a provisional stay on enforcement of claims by creditors.
- In addition to the proceedings described above, your ability to receive payment on the notes may be affected by a decision of a court to grant a stay on payments (*sursis de paiements*) or to put the Issuer into judicial liquidation (*liquidation judiciaire*). Judicial liquidation proceedings may be opened at the request of the public prosecutor against companies pursuing an activity violating criminal laws or that is in violation of the commercial code or of the laws governing commercial companies. The management of such liquidation proceedings will generally follow the rules of bankruptcy proceedings.

The liabilities of Cirsa Funding in respect of the notes will, in the event of the liquidation of the Issuer following, in particular, bankruptcy or judicial liquidation proceedings only rank after the cost of liquidation (including any debt incurred for the purpose of such liquidation) and those of the Issuer’s debts entitled to priority under Luxembourg law. Preferential debts under Luxembourg law include:

- money owed to the Luxembourg Revenue Office in respect of, for example, income tax deducted at source;
- value added tax and other taxes and duties owed to the Luxembourg Customs and Excise Agency;
- social security contributions; and
- remuneration owed to employees.

Assets over which a security interest has been granted will in principle not be available for distribution to unsecured creditors (except after enforcement and, only to the extent a surplus is realized).

During such insolvency proceedings, all enforcement measures by unsecured creditors are suspended. The ability of secured creditors to enforce their security interest may also be limited, in particular in the event of controlled management proceedings expressly providing that the rights of secured creditors are frozen until a final decision has been taken by the court as to the petition for controlled management and may be affected thereafter by any reorganization order given by the court.

Furthermore, declarations of default and any subsequent acceleration (such as acceleration upon the occurrence of an event of default) will not be enforceable during controlled management proceedings.

Luxembourg insolvency laws may also affect transactions entered into or payments made by a Luxembourg company during the pre-bankruptcy period (*période suspecte*) which is a maximum of six months (and ten days, depending on the transaction in question) preceding the judgment declaring bankruptcy, except that in certain specific situations a Luxembourg court may set the start of the suspect period at an earlier date. In particular:

- pursuant to article 445 of the Luxembourg Code of Commerce (*code de commerce*), specified transactions (such as, in particular, the granting of a security interest for antecedent debts; the payment of debts which have not fallen due, whether payment is made in cash or by way of assignment, sale, set-off or by any other means; the payment of debts which have fallen due by any means other than in cash or by bill of exchange; the sale of assets without consideration or with substantially inadequate consideration) entered into during the suspect period (or the ten days preceding it) must be set aside or declared null and void, if so requested by the insolvency receiver;
- pursuant to article 446 of the Luxembourg Code of Commerce, payments made for matured debts as well as other transactions concluded for consideration during the suspect period are subject to cancellation by the court upon proceedings instituted by the insolvency receiver if they were concluded with the knowledge of the bankrupt party's cessation of payments; and
- pursuant to article 448 of the Luxembourg Code of Commerce and article 1167 of the Civil Code (*action paulienne*) gives the insolvency receiver (acting on behalf of the creditors) the right to challenge any fraudulent payments and transactions, including the granting of security with an intent to defraud, made prior to the bankruptcy, without any time limit.

In principle, a bankruptcy order rendered by a Luxembourg court does not result in automatic termination of contracts, except for *intuitu personae* contracts, that is, contracts for which the identity of the company or its solvency were crucial. The contracts, therefore, subsist after the bankruptcy order. However, the insolvency receiver may choose to terminate certain contracts. As of the date of adjudication of bankruptcy, no interest on any unsecured claim will accrue vis-à-vis the bankruptcy estate.

Insolvency proceedings may hence have a material adverse effect on the relevant Luxembourg company's business and assets and the Luxembourg company's respective obligations under the notes (as Issuer).

Finally, any international aspects of Luxembourg bankruptcy, controlled management and composition proceedings may be subject to Council Regulation (EC) No. 1346/2000 of 29 May 2000 on insolvency proceedings.

We have not prepared, and we do not intend to prepare, financial information in accordance with U.S. GAAP or separate Guarantor financial data.

We have prepared our financial statements in accordance with IFRS-EU, which varies significantly from the U.S. GAAP and results in significant differences in reported operating results and financial condition from those under U.S. GAAP. Moreover, the indentures governing the notes do not require us to reconcile future financial statements to U.S. GAAP. We also have not presented

separate financial statements or summary financial data for the Guarantors in this annual report, and are not required to do so in the future under the indentures governing the notes.

You may be unable to enforce judgments obtained in U.S. courts against the Issuer, Cirsa or the other Guarantors.

The directors and executive officers of Cirsa Funding, Cirsa, and the other Guarantors are non-residents of the United States and the assets of these companies and their directors and officers are located outside of the United States. As a consequence, you may not be able to effect service of process on these non-U.S. resident directors and officers in the United States or to enforce judgments against them outside of the United States.

We have been advised by our Luxembourg, Spanish, Italian and Panamanian counsel, respectively, that there can be no assurance that a Luxembourg, Spanish, Italian or a Panamanian court would enforce a judgment against the Issuer, Cirsa and any of the other Guarantors obtained in the United States. See “*Service of Process and Enforcement of Civil Liabilities.*”

We may not be able to finance a change of control offer.

The indentures governing the notes require Cirsa Funding to make an offer to repurchase the notes at 101% of their principal amount if we experience a change of control, and Cirsa must make a payment to the Issuer under the funding loans in such amount. As described above, Cirsa depends on the cash flow of operating subsidiaries and the Issuer relies on payments by Cirsa under the funding loans to make payments on the notes, including offers to repurchase. The failure of Cirsa Funding to effect a change of control offer when required would constitute an event of default under the indentures governing the notes. However, some important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a “change of control” under the indentures governing the notes.

You may not be able to resell the notes easily.

There will be no established trading market for the notes and we cannot assure you that an active or liquid trading market will develop or continue for the notes. Future liquidity will depend, among other things, on the number of holders of the notes, our financial performance, the market for similar securities and the interest of securities dealers in making a market in the notes.

In addition, because the notes have not been, and are not required to be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction, they may not be offered or sold except to QIBs in accordance with Rule 144A or to non U.S. persons in accordance with Regulation S or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and all other applicable laws. These restrictions may limit your ability to resell the notes.

You may face foreign exchange risks by investing in the notes.

The notes are denominated and payable in euros. If you measure your investment returns by reference to a currency other than euros, an investment in the notes will entail foreign exchange related risks due to, among other factors, possible significant changes in the value of the euro relative to the currency by reference to which you measure the return on your investments because of economic, political and other factors over which we have no control. Depreciation of the euro against the currency by reference to which you measure the return on your investments could cause a decrease in the effective yield of the notes below their stated coupon rates and could result in a loss to you when the return on the notes is translated into the currency by reference to which you measure the return on your investments. There may be tax consequences for you as a result of any foreign exchange gains or losses resulting from an investment in the notes.

15. CAPITALIZATION

The following table sets forth our cash and cash equivalents, short term debt and consolidated capitalization, as of December 31, 2015, (i) on an actual basis and (ii) as adjusted to give effect to the issuance of the 2021 notes and the application of the proceeds therefrom, to purchase in the Tender Offer or redeem the outstanding €450,000,000 aggregate principal amount of our 2018 notes. The adjusted information below is illustrative purposes only and does not purport to be indicative of our capitalization following the completion of the issuance of the 2021 notes. This table should be read in conjunction with “*Selected Consolidated Financial Information and Other Data*,” “*Operating and Financial Review and Prospects*,” and “*Description of Certain Indebtedness*” included elsewhere in this annual report.

	As of	
	December 31, 2015	
	As	
	Actual	Adjusted
	(€ in millions)	
Cash and cash equivalents ⁽¹⁾	114.9	106.5
Revolving Credit Facility ⁽²⁾	—	—
Other bank loans ⁽³⁾	130.3	130.3
Net bank debt ⁽⁴⁾	15.4	23.8
Notes ⁽⁵⁾	—	441.6
2018 notes ⁽⁶⁾	452.7	—
2023 notes ⁽⁷⁾	482.8	482.8
Capitalized leases ⁽⁸⁾	11.1	11.1
Gaming tax deferrals	2.7	2.7
Other indebtedness	23.0	23.0
Total net debt⁽⁹⁾	987.6	984.9
Total debt	1,102.6	1,091.4
Total equity ⁽¹⁰⁾	44.0	44.0
Total capitalization⁽¹¹⁾	1,146.5	1,135.4

- (1) As adjusted reflects the application of the gross proceeds of the offering to repurchase or redeem in full and discharge the €450.0 million aggregate principal amount of the 2018 notes outstanding on December 31, 2015, but excluding accrued and unpaid interest to but excluding the date of payment for any 2018 notes tendered as part of the Tender Offer, or, if applicable, the redemption date, and other amounts thereunder, but including the payment of estimated costs, fees and expenses in connection with the issuance of the 2021 notes, the Tender Offer and the redemption of the 2018 notes of approximately €6.0 million. See “*Use of Proceeds*.”
- (2) The Revolving Credit Facility was undrawn but available on the issue date of the 2021 notes. See “*Description of Certain Indebtedness*.”
- (3) For a description of certain other bank loans, see “*Description of Certain Indebtedness*”.
- (4) Represents indebtedness under the Revolving Credit Facility and other bank loans less cash and cash equivalents.
- (5) As adjusted reflects the gross proceeds of issuance of the €450.0 million aggregate principal amount of the 2021 notes at an issue price of 99.456%, net of estimated amortized debt issuance costs of €6.0 million.
- (6) Represents the actual outstanding aggregate principal amount of the 2018 notes as of December 31, 2015 (including issue premium, original issue discount and net of amortized debt issuance costs). As adjusted gives effect to the repurchase or redemption in full and discharge of the outstanding €450.0 million aggregate principal amount of 2018 notes in connection with the issuance of the 2021 notes. The actual amount of proceeds used to redeem the 2018 notes will vary depending on the date that the redemption of the 2018 notes is completed.
- (7) Represents the actual outstanding aggregate principal amount of the 2023 notes as of December 31, 2015 (which excludes €10.0 million aggregate principal amount of 2023 notes purchased and held by us as well as accrued interest, issue premium, original issue discount and net of amortized debt issuance costs).
- (8) Primarily represents capital leases for slot machines.
- (9) Represents total debt less cash and cash equivalents.
- (10) Assumes no impact on capitalized debt issuance costs in respect of the 2018 notes as a result of the repurchase or redemption thereof.
- (11) Represents total debt and total equity.