

2011



**ANNUAL REPORT
OF FORTUNA ENTERTAINMENT GROUP N.V.
FOR THE YEAR 2011**

FORTUNA

during 2011
the number of clients
registered with
Fortuna Klub Plus
grew to 224,249

409.3 mil. EUR

is a total
Amounts
Staked figure
for FEG
in 2011

409.3 mil. EUR

is a total
Amounts
Staked figure
for FEG
in 2011



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1. Fortuna at a Glance

Fortuna Entertainment Group N.V. ("Fortuna" or "FEG" or "the Group") is the leading Central European betting operator. The Group offers a comprehensive range of online and land network-based betting products, including pre-match betting on a range of sporting events, live betting for major televised matches and number games.

The founding company FORTUNA sázková kancelář a.s. ("FORTUNA Betting Office, joint stock company" or "Fortuna SazKan") was established in 1990 in Prague. From its incorporation, Fortuna SazKan's primary business was sports fixed-odds betting. A year later, Terno, a.s. was established in Slovakia. In 2005, Penta Investments became the owner of both entities and in the same year it acquired Poland's betting office Profesjonal. Subsequently, all companies were rebranded under one brand: Fortuna. Fortuna developed online betting and the gaming platform FortunaWin, through which it can offer products in new markets. FortunaWin has provided betting and gaming products to customers in Hungary and Croatia since June 2010 and May 2011, respectively.

Thanks to its 20 years of experience on the CEE market, Fortuna sets standards and trends in the betting sector. The Group is constantly investing in the development of new products and services; it has expanded its branch network as well as the quality of its distribution channels. As of 31 December 2011, Fortuna held the number-one market position in Poland and the number-two market position in the Czech Republic and Slovakia based on total amounts staked.

As of 31 December 2011, Fortuna operated 1,426 points of sale in three markets.

In July 2011, Fortuna launched the new Loto lottery in the Czech Republic, a numerical lottery game with draws held twice a week. The aim was to gain a substantial market position on the Czech market where the penetration of lottery business is low. At the end of 2011, after less than six months of operations, Fortuna had gained a 12% market share on the Czech lottery market. The Company also started a successful sale of instant scratch tickets in May. As of 31 December 2011, Fortuna operated 1,470 lottery terminals in the Czech Republic.

In October 2010, FEG went through a successful IPO on the stock exchanges in Prague and Warsaw. As of 31 December 2011, Fortuna's majority shareholder was AIFELMONA HOLDINGS LIMITED, a subsidiary of Penta Investments Limited, with a 67.3% stake.

2. 2011 Financial Highlights

Financials (Euro thousands)	2011	2010
Amounts Staked	409,344	384,172
- of which sports betting	399,455	384,172
- of which lottery	9,889	0
Gross Win	101,804	92,815
- of which sports betting	96,705	92,815
- of which lottery	5,099	0
Revenues	89,844	81,195
- of which sports betting	84,758	81,195
- of which lottery	5,086	0
EBITDA	19,963	25,083
- of which sports betting	26,655	25,083
- of which lottery	(6,692)	0
Operating Profit	16,831	22,453
- of which sports betting	23,872	22,453
- of which lottery	(7,041)	0
Net Profit for the Year from Continuing Operations	13,320	17,373
- of which sports betting	20,334	17,373
- of which lottery	(7,014)	0

Ratios

EBITDA Margin	22.2%	30.9%
Operating Profit Margin	18.7%	27.7%
Margin of Net Profit for the Year from Continuing Operations	14.8%	21.4%
CAPEX as % of Revenues	5.2%	4.4%

	As of 31 Dec 2011	As of 31 Dec 2010
Number of Shares – End of Period ("EOP")	52,000,000	52,000,000
Total Assets	93,855	95,804
Total Equity	46,702	52,007
Total Borrowings	28,501	29,136
Net Debt/(Net Cash)	10,968	3,801
CAPEX	4,671	3,565

Operations

Number of Points of Sale (sports betting)	1,426	1,393
Number of lottery terminals	1,470	0
Number of Employees – EOP	2,613	2,644

3. 2011 Key Milestones

April 2011

Fortuna PL submitted an application to the Polish Ministry of Finance regarding permission for providing online services in Poland.

Fortuna Entertainment Group decided to accelerate the launch of the lottery project.

May 2011

Fortuna Entertainment Group submitted its official offer to take over Sazka's lottery business to the bankruptcy administrator of Sazka.

Fortuna started to sell instant scratch tickets.

June 2011

Fortuna had signed contracts with distributors for the first 1,000 lottery terminals.

Fortuna paid out a gross dividend of EUR 0.3 per share to its shareholders.

July 2011

Fortuna launches Loto, the first new lottery in the Czech Republic in more than 50 years. The Fortuna Lottery also brings back the original purpose of the lottery, i.e. to support charitable projects for disadvantaged children.

Fortuna lottery broadcasted by TV Nova, a major Czech commercial TV station.

Fortuna Entertainment Group adopted a stock option plan for selected members of management and employees.

August 2011

Fortuna PL gained permission from Ekstraklasa SA, for use of Polish football leagues and cup results for indefinite period.

Fortuna Entertainment Group started negotiations to take over the Polish subsidiary Tipsport PL, Sp. z o.o.

Fortuna PL established cooperation with Ticketportal.pl. Since August sport supporters have been able to buy tickets for sport events in some Fortuna outposts.

Fortuna hosted the International European Championship in fixed-odds betting that was attended by 22 of the top Fortuna players from the Czech Republic, Slovakia and Poland.

The Management Board of Fortuna Entertainment Group decided not to exercise a call option for all shares in Fortuna HR held by Equinox Investments B.V.

Mobile top-up of all three wireless operators in the Czech Republic becomes available at the Fortuna lottery terminals.

September 2011

A massive advertising campaign for Loto started in Czech media, including TV advertising, radio stations, press, billboards and citilights.

Fortuna PL started taking registrations of efortuna.pl users as part of preparations for the online betting launch in Poland.

Fortuna PL celebrated its 15th anniversary. Since 1996 Fortuna in Poland has gathered more than 300 million tickets from more than 30,000 regular customers.

Fortuna PL organized a special 15th anniversary contest for players. The best bettor won a Honda chopper-style motorcycle.

Fortuna Lottery donated CZK 500 thousand to "Centrum Paraple", a charity supporting handicapped children and young people.

October 2011

Fortuna zakłady bukmacherskie, a subsidiary of Fortuna Entertainment Group N.V., had already registered 10,000 individual subscribers for Polish online betting.

Fortuna had sold 1.5 million instant scratch tickets in less than six months and issued a new series.

November 2011

Fortuna presented Zlatých 11, a new game, in which bettors can win a daily prize of up to CZK 300 million. Zlatých 11 is the second game Fortuna is launching in the Czech Republic.

Penta Investments Limited transferred its 67.26% stake in FEG to its subsidiary AIFELMONA HOLDINGS LIMITED based in Cyprus.

December 2011

Fortuna Lottery offered the highest jackpot ever seen on the Czech lottery market – CZK 93 million available for a staked ticket of only CZK 80.

Fortuna PL sponsored one of the biggest media football events in Poland – the Piłka Nożna weekly magazine Gala.

Fortuna PL became a member of Krajowa Izba Sportu – an independent body uniting companies supporting the development of Polish sport.

4. Letter from the Chief Executive Officer to Shareholders



Dear Shareholders,

I am delighted to be able to report on a record year at Fortuna Entertainment Group in our first full year of listing on both the Prague and Warsaw stock exchanges. Our teams have delivered top line turnover over EUR 409 million, by 6.2% more than last year and a final net profit figure EUR 13.3 million and we have achieved extremely solid numbers across all three territories and all channels. Our future plans have been boosted with the strategic addition of an additional income stream in the form of our exciting new lottery project in the Czech Republic.

We are responding assertively to changes in our business – in terms of product and distribution as customers want to bet more in shops, in partner operations, online and indeed “on the move”. We are transforming Fortuna from a long standing and trusted sports betting retail brand into the primary online and mobile operator across the Czech Republic, Slovakia and Poland. We are committed to becoming the lead brand in our regions and to providing outstanding customer service to our customers – wherever they live and however they want to bet with us. We are building effectively on our trusted name through a high quality multi-channel service which we genuinely believe is best in class.

Key highlights from last year and going forward include:

- Encouraged by a number of other markets in Europe that operate multiple lottery products such as Sweden and the Netherlands, we worked rapidly with the leading worldwide provider Intralot to introduce a second lottery choice for Czech consumers on July 18, 2011. The demise of incumbent operator Sazka in 2011 clearly shook customer confidence in the lottery sector as a whole and our new and exciting lottery brands will help regrow this extremely lucrative market as well as giving Fortuna an alternative channel and income opportunity – early results have been encouraging as we have built an entire management team from scratch in an incredibly short period. We believe the market can comfortably and profitably sustain two lottery players going forward.
- Our online business continues to grow from strength to strength as broadband penetration increases rapidly across the region and our online innovations allow quick access and drive customer loyalty to the Fortuna brand. Live Betting or “Betting In Play” continues to prove extremely popular with customers and now accounts for 21.4% of Gross Win for the total online business. We provide the best “live streaming” of the top sports action so that our customers can bet on the widest range of games available with the most varied number of markets for each game. Our site will be further improved in 2012 with a wide range of new products and a better “look and feel” as we remain focussed on recruiting, retaining and reactivating our customer base.
- Retail overall saw low single digit decline as new customers access the Fortuna brand via the online and mobile facility. We still saw robust profit performance across all three territories and the blended performance of both channels is crucial as customers in the Czech Republic have to register in a retail shop as the final process in opening an online account and they form essential advertising and marketing sites in Poland. Unlike the offshore operator we are committed to “knowing our customer” as well as being focussed on responsible betting – additionally, customers have told us that the ability to deposit on and withdraw online funds in shop is important to them. We are indeed, testing a number of retail initiatives to encourage more customers to visit our shops and to stay longer with the addition of more products and an improved environment. Our shops are the very best assets to advertise our online business and our lower cost partner shops (primarily sports bars) remain consistent profit contributors as well as effective promoters of the brand.

- January 2012 saw us finally get our license and launch our regulated Polish online website at efortuna.pl. Even before taking our very first bet online we had pre-registered over 20,000 Polish customers to the site – the early commercial signs are extremely promising as Polish customers take the opportunity to bet “legally” with Fortuna.
- In the beginning of 2012 also in Poland we were pleased to acquire the retail operations of Tipsport adding another 80 retail units to our portfolio – we warmly welcome our new staff members to the Fortuna team.
- Regulation always provides the key challenge for regulated, domestic operators like Fortuna. Naturally, the new tax changes in the Czech Republic were a disappointment but we remain confident that we can mitigate these issues by trading harder and smarter across all our channels. The much anticipated launch of our Polish website is of course tempered by the punitive 12% tax rate on our customers. We are committed to a three-way balance in providing a sports betting service and will continue to lobby along these lines – ensuring we can operate profitably, ensuring customers are attracted to betting with the local legal operator and ensuring that the Treasury gets its share of the transaction. At the moment, illegal offshore operators who contribute nothing to the Government tax take are still allowed to promote themselves with impunity – the situation has to be resolved and restrictions on both advertising and customer payment procedures should be enforced assertively.
- The year of 2012 sees Poland co-host the UEFA European Football Championship in the summer. Even without a major football tournament, 2011 proved to be a great year for sports betting so we look forward to the finals as a major opportunity to acquire new customers and grow our existing business. With Poland and the Czech Republic being drawn in the same group we believe demand to bet on the matches will be enormous – we have a number of exciting PR and marketing initiatives to make the most of this showcase event. We will build on our existing high profile sponsorships such as Sparta Praha, FC Slovan Liberec, Slovak national football team and many others to ensure Fortuna remains at the forefront of top level sport in the region.

It's important to thank a number of people who have helped us grow the existing business, go through a successful IPO process and successfully launch Loterie Fortuna. We are grateful to our major shareholder, Penta, and the Supervisory Board for their unwavering support of management during an incredibly busy and demanding time, as well as to our investors for their confidence in the Group which I hope has been repaid to some extent by our robust dividends policy. I want to express my gratitude to all our staff in Amsterdam, Prague, Bratislava, Cieszyn and Malta and all Fortuna colleagues across the entire region who do the most vital job of all – looking after our customers, our most important people.

Fortuna is committed to transforming itself as the online sector continues to grow rapidly, to innovating across all its channels and to maintaining its long heritage and track record on results by performing to the very highest standards in everything we do.

Thank you.



Wilf Walsh

Vice Chairman of the Management Board and Interim CEO
of Fortuna Entertainment Group N.V.

5 April 2012

5. Statement by the Chairman of the Supervisory Board



Ladies and Gentlemen,

In the past year, the Supervisory Board has closely monitored the activities of all companies within Fortuna Entertainment Group N.V. and communicated intensively with members of the Management Board to support them in finding their way to the best decisions for the Company and its shareholders.

Without any doubt, the year 2011 was a groundbreaking year for Fortuna as well as for the Central European betting market in many ways. The Polish government finally recognized the importance of regulating the local online sports betting market and made necessary amendments to the gambling law to permit online sports betting for locally licensed players. It allowed Fortuna to offer its online betting in the Polish market as of 2012 and leverage our online experience from other countries. In the Czech Republic, Fortuna entered the lottery market as the number two player offering an interesting alternative to the incumbent lottery operator Sazka. At the same time, our Czech business model will be tested by the introduction of the new taxation regime for betting and gambling services. In Slovakia, the market situation and legislative environment remained, with minor adjustments, very stable and we have seen a continuous growth of Fortuna's performance there throughout the whole year.

Apart from the lottery project in the Czech Republic, Fortuna continued with the innovation of its existing product portfolio and the diversification of its offer, particularly in the online segment. We are highly delighted to see impressive double digit growth in online betting and the rising popularity of live betting and live streaming which promise major potential for the future organic growth of our business. We are successful in the retention and protection of our retail business that complements and supports our online expansion.

I am very satisfied with Fortuna's financial and business performance in 2011, which proved to be another year of stability, market growth and cash generation. Although the European market was hit by another wave of financial weakness caused by the banking sector crisis and the rising government debt burden, the betting segment proved to be resilient to the market uncertainty and performed in line with our expectations. In sports betting, which is our key value contributor, we have managed to grow our top line numbers, retain our sales margins and yet remain one of the market leaders in all countries where we operate. In the lottery segment, we have successfully launched our operations in the Czech Republic with significant personnel and financial resources.

Looking ahead, 2012 will also be a year with many opportunities. We fully support a further roll-out of the Czech lottery project despite severe competition efforts coming from the number one player on the market. We will place a strong emphasis on the expansion of Polish online betting, also in light of the upcoming UEFA EURO 2012 tournament in Poland and Ukraine which represents a unique opportunity to attract new users of our services.

The Supervisory Board is committed to supporting the executive management of Fortuna in key decisions and activities with the ultimate aim of increasing value and sustainability for all shareholders. We also believe that the changes in the top management in the past year will be beneficial for the company and will result in an even better and stronger performance of the existing management team.

On behalf of the Supervisory Board, I would like to thank the management and employees of Fortuna for their achievements and daily efforts. We look forward to the coming challenges and mutual cooperation during 2012.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J. Janov', with a stylized flourish at the end.

Jozef Janov
Chairman of the Supervisory Board
of Fortuna Entertainment Group N.V.

5 April 2012

28.8% growth
in Gross Win
from online
betting in 2011



Polish clients
pre-registered for
online betting with
Fortuna ahead
of launch in
January 24, 2012

20,000



6. Management Board Report

6.1 Description of the Company's Business and Markets

6.1.1 General Market Overview

The Group operates in the betting and gaming sector and since mid-2011 also in the lottery business in the Czech Republic. Betting is mainly focused on sporting events while gaming services include the following: online casino games such as poker, black jack, roulette and skill games. After gaming and lotteries, betting is the biggest subsector in the overall EU betting and gaming market. The substantial growth in the European betting market has been driven by regulatory change and the growth of online betting. Currently, legal frameworks for betting service providers in many European jurisdictions are under review. Some countries are contemplating the liberalization of the betting market, partly due to the inefficiency of various limitations and bans, and partly in order to increase existing taxes or impose taxes on new areas of commerce. Gaming is the most significant subsector, with further prospects for growth, resulting mainly from the rapid development of online services. This trend is supported by cooperation between various entities in the betting and gaming sector: landline operators are starting to cooperate with online service providers, while betting organizers are entering into agreements with gaming operators.

Fortuna operates in the Czech Republic, Slovakia, Poland and Hungary. Compared with Western countries, the Central and Eastern Europe betting markets are still relatively underdeveloped and offer opportunities for future growth. Apart from the Czech Republic, the competitive landscape consists largely of a small number of single-country operators. However, due to the growth in the online betting industry, country operators have started to compete not only at a local level, but also with offshore online operators. In terms of retail operations, potential new market entrants encounter significant barriers to entry, including requirements to obtain local licences, high marketing spend to build brand recognition, and high retail establishment costs.

The table below presents the main economic indicators in the countries where the Group operates:

	Czech Republic	Hungary	Poland	Slovakia
Population (million, 2011)	10.5	10	38.2	5.4
GDP (EUR billions, 2011)	153.2	100.69	380.96	69.94
GDP per capita (EUR, 2011)	14,580	10,069	9,972	12,952
HICP (all items, annual average inflation rate, 2011)	2.1%	3.9%	3.9%	4.1%

Source: Eurostat

6.1.2 Czech Republic

The competitive landscape in the betting sector is composed primarily of five major bookmakers: Tipsport, Fortuna, Chance, Sazka and SynotTip. The leading position on the market in terms of the number of outlets is held by Tipsport, with a significant area being "partner" outlets in bars. Fortuna SazKan, together with Fortuna GAME, has a solid second position with an improving market share. The third largest operator is Chance, whose market position is continuously being eaten away by other operators. Alternative bookmakers are SynotTip and Sazka, the core activities of which are slot machines and lotteries.

The Czech lottery market was in the past controlled by state monopoly Sazka. Prior to Sazka's financial difficulties, which resulted in bankruptcy proceedings in the first half of 2011, the lottery market was broadly stable at a level of CZK 7.3 billion over the preceding three years (around EUR 300 million) in terms of amounts staked, implying a per capita spend of just below EUR 30 per year.

Following the sale of bankrupted Sazka to a new owner in autumn 2011, Sazka's situation stabilized. Sazka's market share at the end of December 2011 was estimated at 85%, while Fortuna had a 12% share on the Czech lottery market. The third player on the lottery market, Tipsport, had a market share of around 2%. According to estimates, the Czech lottery market fell to less than half of its pre-crisis size this year due to the escalation of Sazka's problems. However, the market is recovering rapidly and Fortuna should benefit from that by growing organically in line with the market growth.

6.1.3 Slovakia

The Slovak betting market is currently structured as a duopoly, with the leading role played by Niké, followed by Fortuna SK, which is significantly strengthening its position. The deregulation of Internet betting has also allowed for the further growth of the market through this new sales channel. Besides these two players, there are also Tipos and Tipsport. Doxxbet, which previously sold its outlet network to Tipsport SK and continued to offer only online betting, currently does business under Maltese licences.

6.1.4 Poland

There are three strong competitors on the Polish betting market: Totolotek (owned by Intralot and partly by the state), STS, owned by Stanleybet, and Fortuna PL. These companies hold similar market shares and are followed by smaller operators such as Betako and Millenium. They constantly differentiate their services and distributing channels in order to be competitive. In 2011, Fortuna acquired one of the small players on the Polish market, a Polish subsidiary of Tipsport, and took over approximately 80 outlets; all of them are partner outlets.

6.1.5 Offshore Online Market

Since the inception of online betting and gaming some 15 years ago, the vast majority of these operations have straddled international borders, creating headaches for governments. Initially, online betting and gaming developed in the Caribbean, targeting the North American market, then the European market and so on. The Internet provided the first entrepreneurs and then established operators with the means of targeting markets where regulation applied to certain or all types of betting and gaming was either grey or, in some cases, prohibitive.

Increasingly, as the sector has matured and with listings on stock exchanges, the appetite for operational risk has somewhat diminished. Today, most listed operators tend not to enter a market via the offshore route, where they believe there is prohibitive legislation, or in an increasing number of cases where they can obtain licences. Given these trends, the proportion of onshore online betting and gaming has increased dramatically in recent years.

The key industry drivers are increasing trust in e-commerce, growing broadband penetration and wider regulation of the sector. Proposals are currently underway to tax and regulate online gaming in several significant European markets. Product evolution has also helped to drive the total online spend. The online offering has expanded rapidly, fuelled by an increase in broadband penetration and speeds leading to more interactive games, particularly live betting.

In June 2010, Fortuna started to offer Internet betting services in Hungary via FortunaWin.com, a Maltese subsidiary. In November 2010, FortunaWin launched weekly poker tournaments in cooperation with a leading poker company, PokerStars.

6.2 Regulatory Environment

The part of the entertainment industry that includes betting, games of chance and gaming machines has not been subject to harmonization at the European Union level and Member States remain competent to define the conditions for the pursuit of activities in that sector. However, regulations concerning the sector have been brought several times before the European Court of Justice. The ECJ has indicated that there is no intent to treat the sector as an ordinary market sector that should be governed by the rules of the market. It was noticed that socially-based attitudes towards the sector tend to restrict, or even prohibit, such activities to prevent them from being a source of private profit. Furthermore, the issue of public security, in particular the prevention of criminal or fraudulent behaviour, is often raised by Member States imposing limitations. The ECJ also indicated that sometimes part of the funds from operations in the sector have to be used for social works, charitable works, sport or culture. Therefore limiting the powers of the Member States in the ECJ's interpretations of the provisions of the Treaty with respect to the sector does not have the aim of establishing a common market and the liberalization of that area of activity. In accordance with Article 45, in conjunction with Article 62, of the Treaty on the functioning of the European Union, the free movement of services, guaranteed in Article 56 of the Treaty, may be restricted only on grounds of public policy, public security or public health.

The development of European legislation (regarding electronic services, for instance) and further judgments of the ECJ may impact local legislation and result in changes in gambling laws.

6.2.1 Regulatory Environment in the Czech Republic

The general terms and conditions for the operation of lotteries (as well as betting games, horse racing bookmaking and similar gambling games) are defined in Act No. 202/1990, the Lottery Act ("Czech Gambling Act"). Although Lottery Games operated via the Internet are not explicitly recognized in the Czech Gambling Act, the Ministry of Finance issued the licences for the operation of online fixed-odds betting on the basis of Section 50(3) of the Czech Gambling Act in 2008.

An operator that intends to organize a lottery game must obtain a licence for the operation of lottery games. The Ministry of Finance may issue a licence for fixed-odds betting for a maximum period of 10 years.

A licence for operation of a lottery game may be granted only to a legal entity with its seat in the Czech Republic. Moreover, some types of lottery games (i.e. betting games, fixed-odds betting) may be operated only by a joint stock company which has all its shares registered and which has been founded to operate such games. In certain cases, the Czech Gambling Act also requires that the operator of a particular lottery game must have a certain minimum registered capital, the amount of which varies for each type of lottery game operated. Except for lottery games operated in specially determined premises (casino games), a licence cannot be granted to a Czech company, if interests in it are held by foreign entities or entities whose direct parent entity is a foreign entity.

Payments to the state and municipalities and winnings of the participants are, with respect to most types of lottery games, secured by a security deposit (in an amount determined by the Czech Gambling Act) placed by the operator in a special bank account. Moreover, the operator must ensure that the portion of the betting proceeds (all deposited amounts, including stakes as well as all accepted charges and fees, reduced by the amount of winnings, administration fee, local tax, state surveillance costs and operation costs directly connected with the operation of games and betting) will be used for the benefit of the public according to the requirements of the Czech Gambling Act. Particular proportions of betting proceeds which must be used for the public benefit range from 6% to 20%, depending on the amount of proceeds.

Czech regulations concerning advertising do not stipulate any special rules related to the advertising of Lottery Games, therefore the general rules for the advertising of any goods or services apply. Only the advertising of lottery games operated legally on the basis of a duly issued licence is allowed under applicable Czech law.

In 2011, the Czech parliament approved amendments to the Czech Gambling Act No. 300/2011 Coll. Effective January 1, 2012, the proceeds used for the benefit of the public as described in the previous paragraph will be replaced by a unified 20% withholding tax on Gross Win and 19% corporate income tax and administration related to sports betting has been simplified in some aspects. The collected proceeds from taxation will be divided between municipal and state budgets in the proportion of 20:80 respectively in the case of lottery and sports betting. The new tax law also gives more power to local municipalities when it comes to the regulation of gambling and betting and newly allows online casino games. The new regulation also prohibits advertising of offshore betting operators in the Czech Republic and places higher requirements on the ownership transparency of onshore companies.

6.2.2 Regulatory Environment in Slovakia

The operation of gambling games in the Slovak Republic is regulated primarily by Act No. 171/2005 on Gambling Games, as amended (the "Slovak Gambling Act"), which is the main legislative instrument of Slovak gambling law.

Betting games may be operated solely on the basis of a so-called individual licence for the operation of betting games issued by the Slovak Ministry of Finance. A separate consent of the municipality has to be obtained for the operation of a betting outlet with its territory. The term of validity of a betting licence is limited to 5 years. A betting licence may be issued only to joint stock companies or limited liability companies having their registered office in the Slovak Republic with a minimum amount of registered capital of EUR 331,939. In the case of legal entities with a "foreign property participation", a betting licence may be issued only to legal entities with a "foreign property participation" of entities that have their registered office or the address of their permanent residence in an EU or OECD Member State.

Slovak gambling legislation does not regulate the area of online betting. However, in practice betting licences do contain an authorization to operate online betting.

An application for a betting licence is subject to an administration fee charged by the Slovak Ministry of Finance. In the case of fixed-odds betting, the fee amounts to EUR 3,319; for other types of betting games the fee is EUR 331.50.

The operator of a betting game is required to maintain a certain minimum amount of funds as a financial guarantee in a bank account solely for the purposes of the settlement of the obligations of the operator of the betting game. In the case of fixed-odds betting, the financial guarantee amounts to EUR 750,000. The operator of a betting game is required to maintain the financial guarantee during the entire term of validity of the betting licence, as well as after the expiration of the validity of the licence until all the above referred obligations are settled and the annual settlement of the licence fees is submitted to the Slovak Ministry of Finance.

The operator of a betting game is further under the obligation to pay licence fees to the state and/or municipal budget. In the case of fixed-odds betting, the fee is 5.5% of the sum of bets/stakes (an increase from a 5% in September 2011) and in the case of horse racing betting it is 1% of the sum of bets/stakes.

Currently, significant changes to Slovak gambling legislation in the area of betting games are not anticipated.

6.2.3 Regulatory Environment in Poland

Starting from 1 January 2010, a new gambling law entered into force. An entity that intends to organize betting is obliged to apply for the permission of the ministry responsible for public finances. The permission is issued for 6 years for a specified number of betting outlets, which may be amended. After the expiry of that permission, an entity may apply for permission only once for six consecutive years. An entity organizing betting should be organized as a limited liability company or joint stock company with share capital of at least 2 million zloty and have its registered office in Poland.

The fee for betting permission is 2,000% of the base amount and 50% of the base amount for each betting outlet. The base amount is the total average monthly gross wages and salaries excluding payments from profit in the second quarter of the previous year as published by the Central Statistical Office. In 2011, the base amount was 3,394.58 zloty, which makes the permission fee 67,892 zloty and around 1,697 zloty for each betting outlet. In addition, a betting company is obliged to establish collateral securing the interests of its customers and fiscal obligations. The amount of collateral is determined on the basis of the number of betting outlets. The base amount is 40,000 zloty. The amount of collateral for 40 betting outlets is six times the base amount and increases by one base amount for each further 10 betting outlets (i.e. in case of 100 betting outlets = 240,000 zloty + 6 x 40,000 zloty = 480,000 zloty). The collateral may be in the form of a banking or insurance guarantee, cash deposit or mortgage.

The total amount of money paid for bets is subject to taxation. A 2.5% tax is imposed on sums paid for bets concerning the results of an animal competition if permission is issued only for this kind of betting and a 12% tax is imposed on sums paid for bets concerning the results of other events.

Licensed onshore, online betting in Poland was prohibited until last year. On May 26th 2011, the Polish parliament amended the gambling law to allow online sports betting for locally licensed players. Moreover the new regulations strengthen the Polish Customs Service's authority in controlling illegal activities of online gamblers, including monitoring and the suspension of money transfers. The new regulations came into force on July 14th, 2011. Unfortunately, the parliament decided to maintain a high 12% withholding tax from betting activities, which discriminates against legal taxpaying players versus offshore companies.

Immediately after the new regulations have been introduced, the Polish subsidiary of Fortuna Entertainment Group – Fortuna zakłady bukmacherskie – submitted to the Ministry of Finance a request for permission to provide its clients in Poland with online betting. The Ministry of Finance awarded the licence to Fortuna in January 2012.

6.2.4 Regulatory Environment in Malta

The legislative framework relative to gaming in Malta is based on a three-tier structure comprising an enabling legislative act (namely, the Lotteries and Other Games Act, 2001 (Chapter 438 of the Laws of Malta), the "Principal Act") at the first level, related regulations enacted by means of Legal Notices in terms of the enabling provisions in the Principal Act at the second level, and other technical specifications at the third level. The Principal Act incorporates all gaming legislation into a single instrument, with the exception of casinos, which are regulated by separate legal instruments. In the context of this regulatory regime, it is the Lotteries and Gaming Authority which acts as the regulatory body and is responsible for the supervision of all types of gaming in Malta, including remote gaming operations established and incorporated in Malta.

Licences are granted by the Lotteries and Gaming Authority (LGA) for an initial period of 5 years; they may be renewed thereafter for further periods of 5 years each, always subject to continued compliance by the licensee with all terms and conditions applicable to such a licence, and at the discretion of the LGA. The regulations clearly and firmly provide that the core part of the online gaming operations must be located physically in Malta. In order to qualify for a licence, an applicant must be a limited liability company registered in Malta.

The granting of a licence in terms of the regulations is, in all cases, subject to a non-refundable application fee, which is to be paid once only together with the submission of an application for a licence, of EUR 2,350. Upon receipt of notice that the class or classes of licences applied for will be granted for a period of 5 years, a licence fee of EUR 7,000 for each licence shall be charged by the LGA. Finally, upon an application for the renewal of a licence, a renewal fee for each licence shall be due in the amount of EUR 1,165.

6.3 Products and Services

The Group's products offered by the sports betting division are divided into three categories: sports betting, number games (bets on numbers) and bets on social events. The Group offers only fixed-odds bets, which are bets at predetermined odds on an event occurring which give rise to either the retention by the Group of a stake placed by a customer or a liability to make a certain payment to a customer. The odds offered by the Group vary depending on the nature of the event and the amount to be paid to a given customer depends solely on such odds and is not influenced by the amounts staked by other customers.

Within each category of products, the Group generally offers three major types of bets:

- SOLO Bet – where a customer makes a single bet, for example, on the outcome of one specific football match;
- AKO BET (accumulator bet) – where a customer can bet on a number of games on one ticket;
- COMBIBET (combination bet) – where a customer can bet on a combination of betting events on one betting slip.

Sports betting remains the most popular category of the Group's products. Each week the Group offers around 6,000 odds on approximately 500 different events in around 20 sporting disciplines, subject to seasonal changes. The Group offers a variety of betting opportunities (differing by betting method) for one event in order to make the offer more interesting and to satisfy more sophisticated customers.

Bets may be placed before the match (pre-match bets) and during the event (live bets).

Live betting was introduced in 2007. As new combinations appear during the event, they result in further betting opportunities and live betting allows customers to react to changing circumstances by making new bets. Since May 2010, Fortuna GAME, formerly Fortuna SazKan, has been offering live bets to customers through their mobile phones. Live betting is becoming increasingly popular and accounted for 16.5% of the Group Amounts Staked in the financial year ended 31 December 2011.

Number games are offered in three options, namely Combinator, Variator and Accumulator, depending on the quantity of numbers drawn and the betting possibilities.

Although the popularity of sports events is similar in each country in which the Group operates, there is some local bias towards particular sports disciplines. However, the four favourite sports remain the same in all the mentioned countries, namely football (over 50% of the total Amounts Staked), ice hockey (approximately 20% of the total Amounts Staked in the Czech Republic and Slovakia), tennis (around 10% of the total Amounts staked) and basketball (around 5% of the total Amounts Staked).

The Fortuna lottery currently offers instant scratch tickets, the bi-weekly Loto game and the daily game Zlatých 11 (Golden 11).

Scratch tickets

Three types of instant scratch tickets have been introduced by Fortuna lottery – Zlatá rybka (Golden Fish), Góllll and Šťastná sedma (Lucky Seven) at prices of CZK 50, 30 and 20 each respectively. The first series of 1.5 million pieces was sold out in less than six months. Every fourth ticket wins and paid out prizes constitute 60% of amounts staked. Series II was issued in October 2011 in a total volume of 3 million pieces.

After the great success of the current scratch tickets, in January 2012 Fortuna expanded the offer with four more brand editions – Zlatá cihla (Golden Brick), Medvídci (Bears), Šťastná podkova (Lucky Horseshoe) and Pavouček štěstí (Lucky Spider). Each scratch ticket will go on sale in an edition totalling 500,000 cards. Lottery Fortuna has so far gained approximately 50% of the scratch ticket market in the Czech Republic.

Loto

Loto is a simple and attractive game and the rollover jackpot will start at CZK 10 million and is forecast to be paid out several times each year. Overall, nine prizes will be split; players know in advance the amount they can win, except the jackpot as this is set and not divided among a large number of potential winners. The lottery draw will take place twice a week each Wednesday and Saturday. In playing Loto, bettors must select 6 numbers out of 49 and one colour out of two. An additional game to Loto is Šťastné číslo (Lucky Number). The minimum bet amount is CZK 20 and every fourth bet can win.

Zlatých 11

In November 2011, Fortuna lottery presented Zlatých 11, a new game, in which bettors can win a daily prize of up to CZK 300 million. Bettors can bet as little as five crowns, but only bettors who bet CZK 100 can win the main prize. The draw takes place seven days a week, including holidays. Bettors know in advance how much they can win. In Zlatých 11, the winnings are fixed in accordance with the bet amount and selected and correctly guessed numbers. The game is therefore very variable; bettors may try out a wide range of variants and see which brings them the highest winnings. There is a high probability that the bettor will win one of the prizes. When 11 numbers are played, there is a probability of 1:3.64. In the competing Šťastných 10 (Lucky 10), the ratio is 1 out of 9.05 (probability of 1:9.05). Also, bettors can win a double of their initial payment even if they do not guess a single number in the 11-number-game.

Denní Číslo (Daily Number) is an additional game to Zlatých 11. Bettors can make a bet on a six digit number indicated on their tickets and play for CZK 1 million and other prizes.

Zlatých 11 is the second game Fortuna lottery launched in the Czech Republic, after Loto launched in July 2011.

6.4 Distribution Channels

The Group delivers its betting products to customers through retail betting outlets, online and via a telephone call centre. The Group offers retail betting through outlets operating under its own brand name, and at counters and betting rooms installed at other retail outlets (such as sports bars, restaurants and pubs) as well as outlets operated by third parties under the Group's "Partner" programme. The availability of distribution channels varies between the countries in which the Group operates, primarily reflecting the legal framework regulating betting services in each jurisdiction.

The following table summarizes the types of distribution channels used by the Group in the markets in which it operates:

	Czech Republic	Slovakia	Poland	Malta
Betting outlets	Available	Available	Available	Not available
"Partner" betting outlets	Available	Available	Available	Not available
Online	Available	Available	Not available ¹⁾	Available
Telephone	Available	Not available	Not available	Not available
SMS	Not available	Available	Not available	Not available

Source: the Company

¹⁾ Online betting licence in Poland was launched by Fortuna in January 2012.

The management believes that the distribution channels used by the Group complement each other while serving different groups of customers. Betting outlets and especially "Partner" betting outlets operated in bars appeal to customers who like to discuss bets and prefer watching sports events in a social setting. The users of online and telephone services are generally younger, better educated, and users of social networking sites and the various functionalities of smart phones and mobile phones, who value their independence and expect immediate access to betting products regardless of the time of day. The remote services the Group offers also enable customers to place bets from locations where there are no betting shops.

Retail betting outlets

Retail betting outlets accounted for 70% of the Group's Gross Win from sports betting in the year ended 31 December 2011.

The tables below present information on the Group's retail network for the years ended 31 December 2011 and 2010:

	Czech Republic	Slovakia	Poland	Total
Betting outlets	419	259	386	1,066
"Partner" betting outlets	188	133	8	329
Total number in 2010	607	392	394	1,393

	Czech Republic	Slovakia	Poland	Total
Betting outlets	369	255	369	993
"Partner" betting outlets	266	157	10 ¹⁾	433
Total number in 2011	635	412	389	1,426

Source: the Company

¹⁾ Doesn't include 80 partner outlets acquired from Tipsport PL.

The Group has betting outlets in the Czech Republic, Poland and Slovakia. In general, Fortuna's betting outlets are around 20 to 50 square metres in size.

Under the "Partner" programme, the Group's land network is extended by installing point of sale betting outlets in places such as bars or restaurants with high traffic where the owner is willing to offer betting products to customers. The Group enters into a lease agreement with each of the "Partners", under which the Group agrees to pay a lease for the use of the premises. Part of the lease is linked to the betting revenues and part is fixed. The financial performance of the "Partner" outlet network is monitored continuously.

In addition, the Group cooperates with third parties that operate some betting outlets in the Czech Republic and Slovakia and provide personnel and lease premises for betting outlets on a commission basis. The Group provides training and equips "Partner" outlets with information panels and information technology.

The Group introduced the "Partner" programme in Poland in June 2010 and by the end of 31 December 2011 it had already established 10 Fortuna's in Poland.

Online business

The Group started offering online betting to its customers in Slovakia in 2007, followed by the introduction of online betting in the Czech Republic in 2009. The Internet platforms allow for wider distribution of the Group's products and enable the Group to diversify its product range; for example, the Group successfully launched live betting based on its experience with other online products. Following beneficial changes in Polish legislation, the Group launched local online operations in Poland in January 2012.

Management believes that online products form the most dynamic growth sector in the industry.

In addition, the Group launched an online betting and gaming platform under the FortunaWin brand offering a wide range of products, including sports betting, live virtual betting, number betting, lottery and online casino. To exploit the full potential of the Internet and to spread its geographical coverage, the FortunaWin business is located in Malta and targets Hungarian customers. The Group is considering targeting other countries in the region through the FortunaWin platform.

Online betting accounted for 30% of the Group's Gross Win from sports betting in the financial years ended 31 December 2011.

Telephone and SMS business

In 2007 the Group started to operate fixed-odds betting via telephone in the Czech Republic, and via SMS in Slovakia (Telekonto service). Although some migration to the Internet has occurred, telephone betting still appeals to a core group of Czech customers who prefer to speak to an individual when placing their bet.

Telephone betting in the Czech Republic (via direct voice contact with an operator) accounted for less than 1% of the Amounts Staked from sports betting in the Czech Republic in the year ended 31 December 2011. SMS betting in Slovakia accounted for less than 0.5% of the Amounts Staked from sports betting in Slovakia in the year ended 31 December 2011.

Lottery terminals

Fortuna's lottery products have their own distribution network and a unique distribution strategy which is to a large extent independent of the traditional sports betting distribution network. Since the lottery products cannot be offered online, it is important to place the lottery terminals at the most lucrative and frequented distribution outlets no matter whether they are Fortuna's own branches or not. Typically, lottery terminals are placed in tobacco shops, gas stations, small stores and also in Fortuna's own betting outlets. Apart from the sale of Fortuna lottery games, the terminals offer also mobile phone top-ups for all three mobile operators in the Czech Republic.

Even a few weeks before the actual launch of the Fortuna lottery game Loto, the Company had signed contracts with distributors for the first 1,000 lottery terminals, including both large retail chains and individual distributors. The retail chains included names such as Geco, HDS Retail, Citi-Tabák and Peal.

In autumn 2011, Fortuna signed a distribution contract with Benzina, a company running a gas stations network in the Czech Republic. The aim of the co-operation is to place lottery micro-terminals in about one hundred gas stations all over the country. The micro-terminal "microLOT" is a smaller version of a regular lottery terminal offering the same services but occupying just 1/3 of space of the regular terminal. As a result, the microLOTs are becoming increasingly popular with Fortuna lottery distributors.

As of 31 December 2011, the Fortuna lottery operated 1,470 lottery terminals in the Czech Republic. By the end of 2012, Fortuna plans to have up to 3,000 terminals in place.

6.5 Customers

Most of the Fortuna's customers are male. Only 9% of customers are women. In terms of age, customers are more diversified and over 70% of customers are between 18 and 45 years of age. As of 31 December 2011, Fortuna had 146,134 registered customers in the Czech Republic, 46,961 in Slovakia and 31,154 in Poland.

6.6 Marketing & Sponsorship

The strength and awareness of "Fortuna" brand remains the key asset across all territories and provides a substantial competitive edge for attracting and maintaining customers. Even more, it will be a crucial parameter in 2012 when establishing Fortuna online betting in recently regulated Polish market and for developing the business. However, because of a strict regulation governing the advertising of betting in Poland, the development of marketing activities in this particular market will be more gradual. The scale, form and content of Group marketing will still vary from country to country.

The focus of Fortuna sponsorship activities is football as a favourite discipline in terms of sports betting. Football clubs and competitions therefore offer natural partnership opportunities for Fortuna Entertainment Group. In the Czech Republic, the organization sponsors both professional and amateur football clubs. The Group has formed partnerships with five top division teams, such as AC Sparta Prague or Bohemians 1905. In Slovakia, Fortuna is the main partner of Slovak national football team.

In Poland, Fortuna's sponsorship activities are mainly focused on football and basketball. Since October 2010, Fortuna has been a partner of the top basketball competition, while 2011 also saw a development a football project. Where regulations permits, the Group wants to run marketing campaigns in various media channels.

Fortuna Entertainment Group is proud of maintaining good relations with its customers. That is why it established the Fortuna Klub Plus loyalty scheme in 2008. This scheme currently has more than 150,000 active members on all the markets where the Group operates. By becoming a member of the club, customers can obtain a whole range of perks, such as advantageous odds, gift items and discounts in partner shops and stores.

6.7 Corporate Social Responsibility

Management believes that being a responsible member of the community can play a role in building customer loyalty and strengthening a corporate brand. The Group is therefore committed to its own corporate social responsibility programme. The Group undertakes some charitable activities in the Czech Republic. In addition, Fortuna contributes financially to many local football clubs under the "Grant Project", which was organized to improve and cultivate the Czech football environment. Fortuna also supports handicapped sportsmen and other handicapped people to adapt and return to social life after suffering debilitating injuries. Fortuna SazKan also donates to selected child support programmes.

6.8 Risk Management

Risk management is a key to the profitable operation of a fixed-odd betting business. A bookmaker's odds are determined so as to provide an average return to the bookmaker over a large number of events. However, there is an inherently high level of short-term volatility in Gross Win percentage event-by-event and day-by-day. The Group may from time to time experience significant losses as well as extraordinary gains with respect to individual events or betting outcomes. However, across a sustained period of operations, the Gross Win margin stabilizes.

The risk of incurring daily losses on a Gross Win basis is significantly reduced by the averaging effect of taking a very large number of individual bets over a considerable number of events and is also tightly controlled through a risk management process which relies on:

Odds Compilation

The Group cooperates with a team of 42 experienced bookmakers who are responsible for determining fixed odds. Initial odds are compiled from first principles and the mathematical chance of an outcome based on previous results. The odds also have an imbedded assumed margin. Initial odds are further processed to set additional odds related to a particular game and adjusted for any market information, bookmakers' knowledge of the sport and local expertise. The bookmakers have access to Betradar databases which collect information on odds from more than 130 companies around the world. The databases help to monitor, assess and compare odds proposed by the Group's competitors. The management believes that the odds compilation process used by the Group is more accurate than fully-automated odds generation, thus enabling the Group to provide competitive odds to its customers.

Odds Adjusting

Once odds are compiled, they are entered into the Group's system and delivered to the Group's operating companies, which may adjust the odds at a local level. The odds are continuously reviewed with respect to customers' behaviour and compared to odds proposed by the Group's competitors. When extraordinary bets occur or the number of bets for a particular event considerably increases, the odds are changed or, on very rare occasions, betting on an entire event is suspended or cancelled. The Group also monitors the decisions of its competitors and may decide to cancel particular offers in the event that its competitors do so. Furthermore, the Group analyses its exposure related to each event on which it has accepted bets and adjusts its odds to decrease the risk of incurring significant loss on that event.

In fixed-odds betting, the liability to make payment is in principle unlimited. However, the Group is not obliged to accept any bets, or may accept bets on certain conditions only.

Bet Acceptance

The Group is under no obligation to accept any bet. The procedure of bet acceptance is designed to eliminate suspicious bets and to adjust the odds ratio to generate a positive Gross Win for the Group. In addition, there is a "black list" of customers. For different types of bets, the Group sets limits on stake value and particular leagues. If a particular game is defined as risky, customers are not allowed to make a solo bet for this game; they can only make a combination bet of 3 to 5 games, one of which is the risky game. Each bet request is entered into the centralized system accessible by all shops for automatic approval. If the bet is not accepted by this automated mechanism, the bet is transferred to the Group's headquarters where a bookmaker may refuse to accept the bet based on his own judgement, propose new odds, or propose new amounts to be staked. Each bookmaker is permitted to accept a bet within particular limits. If a bet exceeds such limits, a bookmaker can ask a more highly qualified bookmaker with bigger limits for permission to approve the bet.

Payout of Winnings

Results of each sports event are downloaded from two sources and checked. Where the results of a sports event are called into question, the Group will make inquiries to the sports authorities about the outcome of the sports event and may refuse to pay out winnings on the event. The Group may also refuse to pay out winnings if there is any suspicious activity or disruption in the Group's system operations. The Group's system operations are analysed immediately after a given sports event or, where a sports event occurs at night, before the start of the following business day. Bets may be rejected both before and after the sports event. In addition, limits are set on each customer's virtual accounts in order to prevent them from transferring a significant amount of money in a short time.

Payment Management

The Group has implemented internal procedures to ensure proper cash management. These internal procedures address legal, safety and insurance requirements in the following areas: bet acceptance, cash keeping and carrying, and winnings pay out. The majority of bets are placed upon prior payment. Credit card payments received by the Group mainly relate to online operations in Malta. The Group only accepts payment via cash or debit card in the Czech Republic and Slovakia. Internet payments are serviced by SporoPay, operated by Slovenská sporiteľňa, a.s., and TatraPay, operated by Tatra banka, a.s. in Slovakia, and by ČSOB, a.s. in the Czech Republic. The management regularly monitors all non-standard card payments and customer behaviour in order to minimize any losses.

Information Technology Solutions

The Group's servers are managed by specialized entities in each of the countries in which the Group operates. All of the premises offering the Group's products in a particular country are linked via the country network. In addition, the country networks are interconnected. Back-up and continuity of services is assured for each country. Failures in services in a particular outlet should be remedied within two hours. The Group maintains considerable IT security services, including firewalls and virus controls.

The online software platform, which allows for the provision of online services in Slovakia and the Czech Republic, is scalable and has not encountered any problems with betting capacity in the past.

Employees' Misconduct

The activities of each of the Group's bookmakers are supervised by senior bookmakers and corrective action may be undertaken at any time. The Group has a cash-monitoring system in each betting outlet which is designed to detect any fraudulent behaviour by the Group's betting outlet employees. The Group's cash management policy helps to decrease the size of potential loss arising from any employee's misconduct.

6.9 Environment and Legal

Environmental Issues

Fortuna believes that environmental matters are not of material importance for the Group activities and its financial situation.

Legal and arbitration proceedings

The Group is routinely involved in litigation, either as a plaintiff or defendant, in various legal disputes arising in the ordinary course of business.

As at 31 December 2010 VAT receivable of FORTUNA sázková kancelář a.s., arising from deduction of certain input VAT, had been challenged by the financial authority, followed by the several legal proceedings initiated by FORTUNA sázková kancelář a.s. The disputed VAT amount had been already paid by FORTUNA sázková kancelář a.s. and was fully provided for in the Consolidated Financial Statements as at 31 December 2010. In the first half of the year 2011, the Constitutional Court rejected the legal proceedings and FORTUNA sázková kancelář a.s. wrote off the receivable and related impairment. This transaction did not have influence on total Other operating expenses.

There are no other governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which FEG is aware) during the 12 months prior to the date of this Annual Report which may have, or have had in the recent past, significant effects on the financial position or profitability of the Group.

6.10 Research & Development

Intellectual Property

The Group relies on the strength of its brands and the names and/or logos of its betting outlets, all of which are registered trademarks and are protected by local legislation applicable in the countries of operation.

The Group has 71 trademarks, including 29 trademarks registered in the Czech Republic, 12 trademarks registered in Slovakia, 26 trademarks registered in Poland and 4 international trademarks, the protection of which is granted to Belarus, Spain and Croatia. In addition, one trademark is co-owned by Fortuna zakłady bukmacherskie Sp. z o.o. and Fortuna sp. z o.o., a company which is not a related party to Fortuna.

The Group has over one hundred registered Internet domains, including "ifortuna.sk", "efortuna.sk", "efortuna.pl", "ifortuna.cz", "ifortuna.eu", "fortunawin.com" and "fortunaloterie.cz". As the majority of Internet domains are owned by Fortuna GAME, formerly Fortuna SazKan, under some inter-group agreements Fortuna Game provides other Group Companies with the right to use certain of the Group's domain names.

In previous years, the Group has not had any material research and development activities.

6.11 Strategy

Growth Opportunities in Online Betting

The Group's online businesses in Slovakia and the Czech Republic have been growing organically since 2007 and 2009, respectively. The Group's strategy is to continue to grow its online businesses organically and maximize the potential offered by the increased acceptance of betting and gaming as a pastime and the growth of broadband Internet penetration.

Having already launched online betting operations in Slovakia in 2007, the Group was able to leverage its experience to quickly and successfully launch its online betting operations in the Czech Republic in 2009. Following the necessary changes in the legislation, Fortuna obtained permission to offer online betting in Poland in January 2012.

In addition, the Group has built its online betting and gaming platform FortunaWin, offering a wide range of products, including betting on sports and other events, live betting, number betting, a lottery and an online casino.

Strengthening the Retail Network

The Group aims to maximize the cash generation from its core retail channel by growing Gross Win while carefully managing costs. To optimize the betting experience, the Group monitors its retail network and adjusts the number and location of retail betting outlets where Fortuna's products are offered on a regular basis. The Group also continuously upgrades the location, facilities, equipment and size of its retail betting outlets.

Fortuna intends to increase the number of its "Partner" betting outlets in order to decrease its fixed costs.

The Group intends to increase the number of products on offer in outlets in order both to attract more customers and to extend their dwell time and spend on each visit to an outlet. In addition, the Group intends to introduce more live and virtual products, improve its media presentation, and enhance its shop designs and the potential for the Fortuna info-channel to promote additional betting opportunities.

The Group seeks to expand and improve the betting opportunities available to customers while maintaining the integrity of its risk management system. The Group intends to offer live-streaming and virtual sports betting through machines, including horseracing, football, basketball and speedway in some of its betting outlets. The management expects the diversification of the Group's product portfolio to create cross-selling opportunities, in particular in Slovakia and the Czech Republic, where web platforms will be used to introduce its customers to new online products.

Lottery Project in the Czech Republic

In July 2010, Fortuna SazKan obtained a licence to offer lottery products in the Czech Republic. The strategy of Fortuna is to target not only the existing clients of lottery games, but primarily new customers. The aim is to create a market in the Czech Republic where the penetration in terms of the betting spend per capita is low compared with other countries (such as Slovakia or Hungary).

The Group executed a cooperation agreement with Intralot, the largest full service technology provider catering to all of the systems and support needs of the lottery project.

On 16 May 2011, Fortuna started selling scratch tickets through its distribution network consisting of almost 1,000 sales points. The penetration of scratch tickets in the Czech Republic is low (single digit number) in comparison to Western Europe where it reaches a 20% market share in the numerical lotteries market, thus an unique window of opportunity is represented for Fortuna Loto.

On 18 July 2011, Fortuna launched the new Loto lottery in the Czech Republic. Approximately every fourth ticket will be a winner; the jackpot worth tens of millions of CZK can be won with a single column bet costing just CZK 20. The Fortuna Lottery also brings back the original purpose of the lottery with the decision to support good cause projects for disadvantaged children. Among the first partners are Centrum Paraple, Fond ohrožených dětí and Konto Bariéry.

A key to Loto's success is a network of high-quality retail outlets. Fortuna currently operates more than 1,470 retail outlets that will increase to a planned 2,800 by the end of 2012. Fortuna's terminals also offer mobile phone top-ups for customers of Telefónica O2 Czech Republic and Vodafone CZ.

In November 2011, Fortuna launched new daily game Zlatých 11 with a daily prize of CZK 300 million. The draw takes place seven days a week, including during holidays. Bettors know in advance how much they can win. Denní Číslo (Daily Number) is an additional game to Zlatých 11. Bettors can make a bet on a six digit number indicated on their tickets and play for CZK 1 million and other prizes.

Promotion of Brand Loyalty

The Group seeks to promote brand loyalty amongst its customers. In 2005, the Group introduced a large-scale Fortuna Klub Plus loyalty programme in betting outlets in all of the countries in which it operates.

Management aims to improve the level of customer service it provides in all of its retail outlets and anticipates that this will be a key differentiator between the Group's retail outlets and those of its competitors. The Group further plans to improve the Fortuna Klub Plus members' service through the introduction of a new CRM system. The system is intended to improve customer relationships with the Group while building higher brand loyalty and to provide a targeted customer communication plan with a focus on activating and tracking customer spend.

The Group cooperates with charities and plans to develop its social responsibility policy. In addition, the Group sponsors football teams in order to build positive associations with its brand and betting, and to emphasize the entertaining and social nature of betting, thereby increasing the appeal of its brand to existing and potential customers.

Entering New Markets

The Group continuously monitors regulatory changes and market opportunities across the Central and Eastern European region. The Group has developed FortunaWin, an online betting and gaming platform, which provides the Group with an opportunity to offer its products on markets in new countries. Currently the new online platform provides betting and gaming products to Hungarian customers.

As part of the process of monitoring market opportunities, the Group regularly reviews land-based greenfield and acquisition opportunities across the Central and Eastern European region.

Compliance with Local Regulations

The Group strategy is to comply with local regulations concerning the provision of online betting services in the countries where it has land-based operations. The Group intends to utilize its experience and to offer online betting as and when new opportunities appear in Poland. As soon as new legislation is introduced, the Group intends to apply for a licence to provide online betting in Poland. The management believes that operating the business under a local licence in Poland will give the Group a competitive advantage over offshore betting organizations.

6.12 Human Resources

Most of the Group's employees work in the Group's betting outlets, with an average of slightly more than two employees per outlet, with one or two employees per shift.

The table below provides information on the number of the Group's employees for particular categories in the total headcount of the Group as of 31 December 2011, 2010 and 2009:

	31 December 2011	31 December 2010	31 December 2009
Holding management	8	9	0
Headquarters	352	233	211
Betting outlet staff	2,253	2,402	2,482
Total number of employees	2,613	2,644	2,693

Source: the Company

The table below provides a breakdown of persons employed in the Group by geographic location as of 31 December 2011, 2010 and 2009:

	31 December 2011	31 December 2010	31 December 2009
Czech Republic	1,051	1,061	1,086
Poland	849	847	857
Slovakia	710	732	750
Other (FortunaWin)	3	4	0

Source: the Company

The Group recognizes the importance of its staff in operating a stable and efficient business and the provision of a high level of customer service and, accordingly, the Group strives to recruit, train, reward and retain the best personnel. The Group believes that it offers an attractive employment package. In addition to offering training and other benefits, the size and diversity of the Group's operations provide development and promotion opportunities for new employees.

Outlet employees' compensation is determined by a basic salary and performance-linked incentive bonuses. The variable (motivation) component of the wage is derived from the turnover of a particular betting outlet. Minimal revenues from betting that are to be reached in a month are specified for each betting outlet (an accepted amount without commissions). Above the amount exceeding the specific limit, a certain amount is paid as a performance bonus for a betting outlet. This amount is proportionally divided among the employees according to the number of hours worked by them in a particular month. Recently the Group introduced other bonuses based on the number of new members enlisted with Fortuna Klub Plus.

The compensation of bookmakers is a combination of fixed salary and variable components, while that of other back-office staff is mainly based on a fixed salary. Moreover, some employees receive annual bonuses which are related to the financial performance of the Group Company. The ongoing performance of the Group's staff is monitored and discussed at regular performance appraisals. While these appraisals are carried out at a local level by local managers, performance criteria are established in the Group's head office, and the Group carries out an audit of performance reviews. The Group encourages teamwork and the sharing of knowledge and expertise.

There is one trade union at Fortuna PL. There are no other trade unions and committees registered in other companies of the Group.

The employees of Fortuna SazKan and Fortuna GAME have their representatives on the supervisory boards of these companies.

As of the date of this Annual Report, the Group's employees do not have any shareholdings in FEG, with the exception of shares held by Group Management and the stock option plan set out in note 8.3.

6.13 Review of 2011

The financial results of Fortuna Entertainment Group for 2011 confirm growth in the main markets where the Company is operating.

- Total Amounts Staked increased by 6.2% to EUR 409 million
- Total Gross Win up by 9.7% to EUR 102 million
- EBITDA Sports Betting grew by 6.3% to EUR 26.7 million
- Online Sports Betting Gross Win increased by 28.8% to EUR 30 million
- Lottery in the Czech Republic going to plan with Amounts Staked EUR 9.9 million and Gross Win EUR 5.1 million

Fortuna, the leading Central European fixed-odds betting operator present on the markets of Poland, the Czech Republic and Slovakia, recorded in 2011 a total Amounts Staked figure of EUR 409.3 million, 6.2% more than in 2010. The Amount Staked from sports betting reached EUR 399.5 million, 3.6% more than in 2010. The Amounts Staked performance was positively driven by market growth in the Czech Republic and Slovakia, primarily in the online segment. Despite the absence in 2011 of a big sports event such as the FIFA World Cup, Fortuna performed well and has beaten its 2010 record figures.

The Company for the first time reported Amounts Staked from lottery bets, which totalled EUR 9.9 million in 2011. The Amounts Staked from sold scratch tickets amounted to EUR 3.4 million and from numerical lottery games EUR 6.5 million.

In 2011, the total Gross Win reached EUR 102 million, an increase of 9.7% compared with 2010. The Gross Win from sports betting equalled EUR 96.7 million, a 4.2% increase yoy. Of this, the Gross Win from online betting in 2011 increased to EUR 29.5 million, a substantial gain of 28.8% over 2010. The Gross Win from retail betting in 2011 amounted to EUR 67.2 million, a small 3.9% decline from the previous year.

The online betting expansion was supported by the further development of "live betting" and live streaming, which are becoming increasingly popular amongst Fortuna clients.

The Gross Win from the lottery was EUR 5.1 million, of which EUR 1.6 million came from the sale of scratch tickets and EUR 3.5 million from lottery games.

In 2011, the Gross profit¹⁾ from betting increased 8.8% yoy and reached EUR 80.0 million, of which the Gross profit from sports betting was EUR 76.2 million and increased yoy by 3.7%. The Gross profit margin from sports betting in 2011 was 19.1%, unchanged from the previous year. The Company was able to retain its margin in the competitive sports betting segment while growing its revenues and expanding into the online segment where margins are traditionally lower. The Gross profit from the lottery amounted to EUR 3.7 million. The Gross profit margin from the lottery stood at 38%.

¹⁾ The Gross profit from betting is calculated as the Gross Win from betting minus taxation from betting.

Revenues, OPEX, EBITDA

In 2011, the Company recorded total revenues in the amount of EUR 89.8 million, 10.7% more than in the previous year. Of this, revenue from sports betting amounted to EUR 84.8 million and went up 4.4% yoy. Revenues from the lottery amounted to EUR 5.1 million in 2011.

Total operating costs in 2011 reached EUR 69.9 million, 24.5% more than in 2010. Staff costs increased 5.3% yoy to EUR 26.9 million, primarily due to new employees for the lottery project. Staff costs in the sports betting segment declined 1.6% yoy. Governmental taxes and levies amounted to EUR 9.4 million, 38.0% more than in the previous year as a result of new betting taxation in the Czech Republic. Of this, sports betting taxes grew 18.3% and the rest were lottery taxes. Other operating expenses (net) increased in 2011 by 41.4% to EUR 33.6 million, primarily driven by the lottery start-up costs, an expense of EUR 8.7 million.

EBITDA from sports betting reached EUR 26.7 million, 6.3% more than previous year. EBITDA from the lottery was EUR 6.7 million negative. Total consolidated EBITDA recorded in 2011 was EUR 20 million, down 20.4% yoy. In 2011, total depreciation rose 19.1% to EUR 3.1 million, of which depreciation related to the sports betting segment was EUR 2.8 million (+5.8%) and the rest was related to lottery.

EBIT and Net Profit

In 2011, the operating profit (EBIT) amounted to EUR 16.8 million, 25.0% less than in the previous year. This result was impacted by lower EBITDA and higher depreciation.

Net finance costs reached EUR 0.9 million in 2011 and decreased by 59.3% yoy. The annual comparison was impacted by a one-off expense related to refinancing in 2010 and a different debt structure.

Income tax equalled EUR 2.6 million in 2011, 7.2% less than in 2010.

In 2011, the Company recorded a net profit from continued operations of EUR 13.3 million, 23.3% less than in the previous year. The lower net income resulted from the planned net loss in the lottery segment which was EUR 7.0 million. In contrast, the sports betting segment recorded a net profit of EUR 20.3 million, up 17.0% yoy.

Breakdown of Revenues by Country

The revenues breakdown according to the markets in which the Company operates is driven by demography, the legislative environment, absolute market shares, the average spend per capita and the growth potential of each individual market.

Selected financial results by country in 2011

(in EUR million)	CZ sports betting	CZ lottery	Slovakia	Poland	Malta
Total amounts staked	215	9.9	131.3	49.4	3.8
Gross Win from betting	44.6	5.1	32.4	19.4	0.2
– of which: online/scratch tickets	16.8	1.6	12.5	0	0.2
– of which: retail/numerical games	27.8	3.5	19.9	19.4	0
Withholding tax paid	0	0	(6.5)	(5.9)	(0.02)
Other revenues	0.2	(0.02)	0.2	0.04	0
Revenues	44.8	5.1	26.2	13.5	0.2
Taxation of earnings from betting	(8.0)	(1.3)	0	0	0
Gross profit from betting	36.6	3.8	25.9	13.5	0.2
– of which: online	13.8	1.2	9.6	0	0.2
– of which: retail	22.8	2.5	16.4	13.5	0
Gross profit from betting (in %)	17.0%	38%	19.8%	27.3%	4.6%

Czech Republic Sports Betting

Czech Republic sports betting generated 52.5% of all Amounts Staked for the Company in 2011. Amounts Staked reached EUR 215 million, 4.7% more than in 2010. The Gross Win from sports betting in the Czech Republic amounted to EUR 44.6 million in 2011, 4.2% more than in the previous year. This growth was driven primarily by the online expansion; The Gross Win from the online segment climbed by 33.7% yoy and amounted to EUR 12.8 million. In contrast, the Gross Win from retail betting in the Czech Republic declined 8.0% yoy and totalled EUR 27.8 million. The Gross profit from betting in the Czech Republic was EUR 36.6 million, 1.5% more than in 2010. This increase was driven by online gross profit which went up 27.2% and amounted to EUR 13.8 million. The Gross profit from retail sports betting in the Czech Republic decreased by 9.5% to EUR 22.8 million in 2011. The Gross profit margin from sports betting in the Czech Republic equalled 17.0% in 2011, 0.6% less than in 2010.

Czech Republic Lottery

The newly reported segment Czech Republic Lottery included in 2011 represented a 2.4% share of Total Amounts Staked. Amounts Staked from the lottery came to EUR 9.9 million. The Gross Win in the Czech Republic lottery amounted to EUR 5.1 million in 2011, of which EUR 1.6 million was from sold scratch tickets and EUR 3.5 million from lottery games. The Gross profit from the lottery in the Czech Republic was EUR 3.8 million. The Gross profit margin from the sale of scratch tickets in the Czech Republic equalled 35.6% in 2011 and from numerical lottery games 39.2%.

Slovakia

The share of Slovakia in regard to total Amounts Staked in 2011 reached 32.1%. Total amounts staked reached EUR 131.3 million, 7.4% more than in 2010. The Gross Win in Slovakia amounted to EUR 32.4 million in 2011, 7.3% more than in the previous year. The Gross Win from online betting was EUR 12.5 million, 21.6% more than in 2010. The Gross Win from retail betting in Slovakia declined only moderately by 0.2% yoy and totalled EUR 19.9 million. The Gross profit from betting in Slovakia was EUR 26 million, 6.5% more than in 2010. This increase was driven almost primarily by the online betting segments. The Gross profit from online betting in Slovakia went up by 19.4% in 2011 to EUR 9.6 million. The Gross profit from retail betting in Slovakia went up by 0.2% in 2011 to EUR 16.3 million. The Gross profit margin from betting in Slovakia equalled 19.8% in 2011, almost unchanged from the previous year.

Poland

Poland accounted for a 12.1% share of total Amounts Staked in 2011. Total Amounts Staked in Poland reached EUR 49.4 million, 10.8% less than in 2010. The reason for the drop was a change in the tax rate on the Amounts Staked that was implemented in mid-2010. The Gross Win from betting in Poland declined slightly to EUR 19.4 million in 2010, by 1.2% yoy. The decline was experienced primarily in the first half of the year, with the second half of 2011 showing annual growth of 2.9%. The Gross profit from betting in Poland was EUR 13.5 million, 3.7% more than in 2010. The Gross profit margin from betting in Poland amounted to 27.3% in 2011, 3.8% more than in 2010 and the highest Gross profit margin of all the markets.

The internet betting carried out through FortunaWin based in Malta was established in mid-2010. Total Amounts Staked reached EUR 3.8 million, up by 48.6% yoy. The Gross Win from betting was EUR 200 thousand, a 212.5% yoy growth and the Gross profit from betting equalled EUR 175 thousand, 173.4% more than last year. The Gross profit margin from FortunaWin was 4.6% in 2011.

Sports Betting Channels and Distribution Network

The rapid development of internet betting is visible both in the Czech Republic and Slovakia. Regulatory developments in Poland concerning online betting enabled the launch of internet betting at the end of January 2012. Fortuna launched online sport betting as the very first licensed operator in Poland with over 20,000 registered online customers shortly before launch.

Although the internet betting segment has been growing rapidly, the retail outlets network remains an important distribution channel of Fortuna and contributes to 70% of the total Gross Win from sports betting of the Company. Another important role of the retail outlets network is the support it provides to the online betting segment – internet clients may use all the customer services, such as deposits and withdrawals and the customer queries and solutions service, free of charge. As a result, the focus on the development and efficiency of the outlet network is an important feature of the Company's strategy in all three markets. For the additional expansion of the retail network, the Group will primarily use a "cost-light" partnership model with successful local businesses, such as sport bars.

Lottery in the Czech Republic

Last year Fortuna made an entrance on the Czech lottery market with the ultimate goal of becoming the profitable number two operator after Sazka. Firstly, the bi-weekly Loto game was introduced to the public in July, followed by the daily game Zlatých 11. Instant scratch tickets, which represent a very interesting and underdeveloped niche market, were launched a few weeks before the lottery launch. A rapid roll-out in the first weeks of the Fortuna lottery existence was somehow diminished by Sazka's market comeback after financial difficulties and ownership changes. Fortuna estimates that the current market share of lottery numerical games is fluctuating around 10–12%.

Dividend Policy and Dividend

The Company's ongoing dividend policy is to pay out a dividend of 70–100% of the consolidated net profit. The dividend within the range will be proposed by the Management Board to shareholders at the AGM which will take place in May 2012.

2012 Outlook

In 2012, Fortuna would like to drive top line growth transformation and the innovation of the online offer. The organization will fully focus on the utilization of the most modern technologies and tools (mobile apps) to make sure that our customers can reach our services without any limitations. The Group's retail operation is under review and will continue to serve as support for online customers mainly in the Czech Republic and Poland. The Company's aim is to increase the number of low-cost partner outlets (sport bars).

Fortuna will leverage its online experience from one country to another by combining the trading expertise with the latest technology developments. The company plans to create an unbeatable proposition in the online segment via improved content, "look and feel", in-play betting and live streaming. Interactive "in-play" is becoming the dominant segment in the betting industry and Fortuna offers more live games and more betting options per game than its local competitors.

The UEFA EURO 2012 football tournament taking place in the CEE region represents a unique opportunity to build Fortuna's position on the Polish market as well as gain additional market shares in the Czech Republic and Slovakia.

With respect to Lottery Fortuna, the organization plans to reinforce its No. 2 market position, deliver targeted market shares and increase brand profile via effective marketing. Fortuna will introduce new games, innovative scratch cards and reduce fixed costs in 2012. The lottery project is expected to break even in the first half of 2013.

6.14 Material Subsequent Events

Effective 4 January 2012, FORTUNA sázková kancelář a.s. changed its name to Fortuna Loterie a.s.

On 24 January 2012 the company Fortuna zakłady bukmacherskie was granted a license from the Ministry of Finance for offering fixed-odds bets via the Internet. Betting on the results of sports games on-line has been possible from 25 January 2012. Fortuna zakłady bukmacherskie is the first bookmaker that offered legal on-line betting services to the Polish clients.

In the beginning of 2012 Fortuna zakłady bukmacherskie obtained permission from the Polish Minister of Finance to operate 80 new betting shops. Most of them were previously owned by Tipsport PL – a company controlled by TIPSPORT a.s. The acquisition enables Fortuna to expand its retail network in Poland to 474 shops and become the biggest Polish betting operator by the number of betting outlets.

In February 2012, Fortuna merged the marketing teams of sports betting and the lottery into one unit. The goal is to increase the efficiency of marketing activities and to further exploit synergies between the lottery and sports betting units of the Group.

The Company announced last year that in 2012 it plans to pay out a dividend of 70-100% of the 2011 net profit and confirmed this commitment in March 2012. The exact dividend amount will be proposed by the Management Board to shareholders at the AGM which is expected to take place in May 2012.

There have been following changes in members of Supervisory Board in Fortuna Loterie a.s. since 31 December 2011:

Supervisory Board

Pavel Volf

Member since 27 January 2012

Changes are recorded in the Commercial register.

7. Investor Information

Fortuna's Shares and Share Capital

Shareholders as of 31 December 2011:

AIFELMONA HOLDINGS LIMITED, a subsidiary of Penta Investments Limited	67.26%
BZ BWK AM	6.98%
Management	0.02%
Other free float	25.74%

Source: Company Data

On 21 October 2010, Fortuna successfully completed an Initial Public Offering (IPO) of its shares with the issue price set at EUR 4.3 per share. In the IPO, a total number of 18,200,000 shares were offered by the selling shareholder Penta Investments Limited (including the over-allotment), including 2,000,000 newly-issued shares. The total volume of the offering equalled EUR 78.26 million based on the 18,200,000 shares. After the exercise of the over-allotment option, Penta ended up with a final number of 34,975,330 shares; the remainder was sold to institutional and retail investors. About 1% of the offering was allocated to retail.

The IPO was twice oversubscribed and the issue price was set at just under the upper end of the indicated price range. Shares of Fortuna Entertainment Group N.V. were listed on the Prague Stock Exchange on 27 October 2010 (conditional trading from 22 October) and on the Warsaw Stock Exchange on 28 October 2010.

As of 31 December 2011, the issued and paid-up share capital of FEG amounted to EUR 520,000 and was divided into 52,000,000 shares with a nominal value of EUR 0.01 each. All of the shares are ordinary registered shares, are fully paid up and rank pari passu with each other, and there is no other class of shares authorized. All shares have been or will be issued under Dutch law. All shares have one vote and carry equal dividend rights.

The shares are traded on the Prague Stock Exchange under ISIN NL0009604859 BAAFOREG and on the Warsaw Stock Exchange under FEG. The shares of FEG since 20 December 2010 have been part of the PX index, which covers the shares of all major issuers on the Prague Stock Exchange.

Share Price Development and Trading Activity in 2011¹

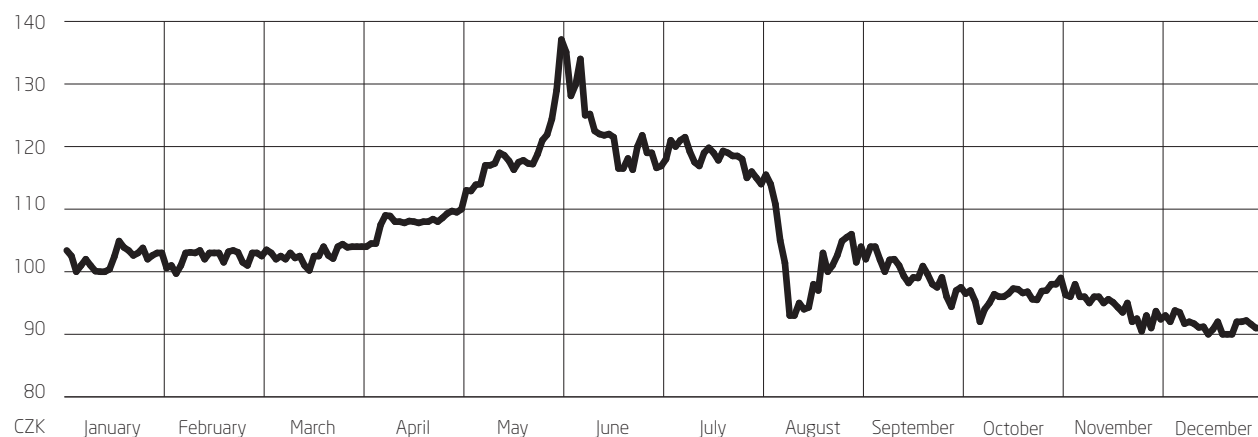
In 2011, FEG shares were traded for a total value of CZK 2.4 billion on the Prague Stock Exchange and for a total value of PLN 37.2 million on the Warsaw Stock Exchange. The lowest trading prices during the year were CZK 90 and PLN 14.8 and the highest were CZK 137.1 and PLN 22.4 on the Prague and Warsaw Stock Exchanges, respectively.

The closing prices on 31 December 2011 were CZK 91.8 on the Prague Stock Exchange and PLN 15.1 on the Warsaw Stock Exchange and the market capitalization of FEG came to CZK 4.8 billion (based on the Prague Stock Exchange quote).

¹ Source: Bloomberg and PSE

1.1.2011 - 31.12.2011

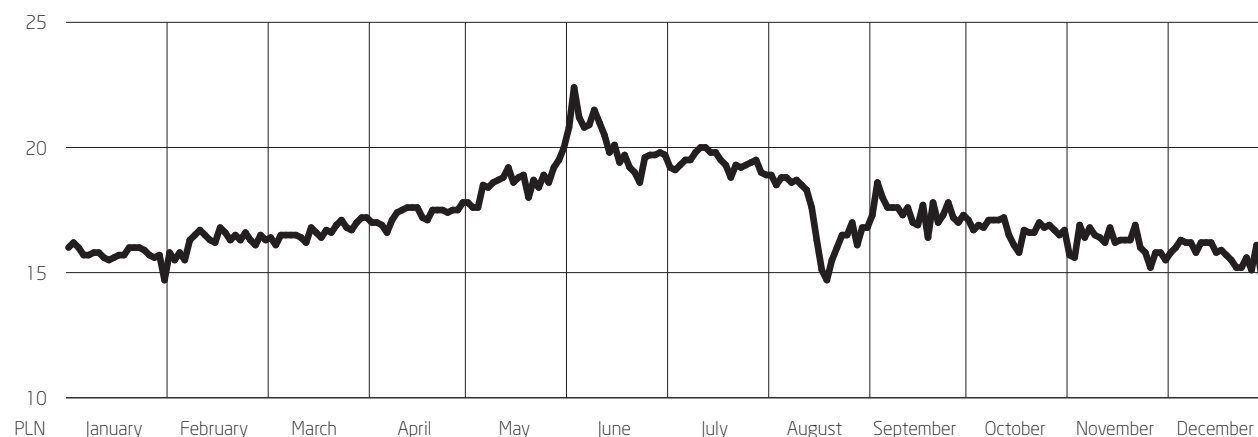
Prague Stock Exchange Price Development



Source: PSE

1.1.2011 - 31.12.2011

Warsaw Stock Exchange Price Development



Source: WSE

Changes in the Shareholders' Structure in 2011

On 29 November 2011, Penta Investments Limited transferred 34,975,330 shares in Fortuna Entertainment Group N.V. as an in-kind contribution, constituting 67.26% of the share capital and representing 34,975,330 votes at the general meeting, to its subsidiary AIFELMONA HOLDINGS LIMITED, a company having its registered seat at Kyriakou Matsi, 16, EAGLE HOUSE, 10th floor, 082, Nicosia, Cyprus. The transfer of the shares was made off the regulated market. Before the Transaction settlement AIFELMONA HOLDINGS LIMITED did not hold any shares in the Company.

As of 31 December 2011 AIFELMONA HOLDINGS LIMITED held 34,975,330 shares, representing 67.26% of the share capital and of the total voting rights attached to the shares issued by the Company.

During the financial year ending 31 December 2011, the Company did not receive any other notification from shareholders about an acquisition or change of a major holding in the share capital and the total voting rights attached to the shares issued by the Company.

The total stake held by the management of the Company as of 31 December 2011 was 0.02%.

Dividend Policy

The Annual General Meeting (AGM) of shareholders of Fortuna Entertainment Group N.V., held on 25 May 2011 in Amsterdam, approved a Management Board proposal to effect gross dividend payments of EUR 0.30 in cash per share for the financial year 2010.

The dividend record date was June 8, 2011. Actual payment of dividend occurred on June 24, 2011. The proposed dividend pay-out for 2010 represented 90% of the net profit from the continuing operations (consolidated accounts) and it is in accordance with the communicated dividend policy – the dividend payout ratio is 70–100% of the net profit from the continuing operations (consolidated accounts).

The Company further plans to pay out a dividend of 70–100% of the 2011 consolidated net profit and would like to confirm this commitment. The exact dividend amount will be proposed by the Management Board to shareholders at the AGM, which is expected take place in May 2012.

Fortuna's Investor Relations Commitment

In the period since the IPO, Fortuna has focused on developing research coverage for the Company, developing relationships with analysts and setting up investor relations communications according to the best market standards. At present, the Company has 10 sell-side analysts, who publish research on the Company, and a number of other commenting analysts from both international investment banks and CEE-based financial institutions.

Fortuna is dedicated to open and proactive communication with its shareholders and has implemented a schedule of investor communications events, which is fully compliant with market standards for listed companies.

Financial Results Calendar for 2012

10 May 2012	Interim Management Statement for the Period Starting 1 January 2012
29 August 2012	Half Year Report 2012 incl. First Half 2012 Financial Results
8 November 2012	Interim Management Statement for the Period Starting 1 July 2012

13.3 mil. EUR

is the Net Profit
for 2011

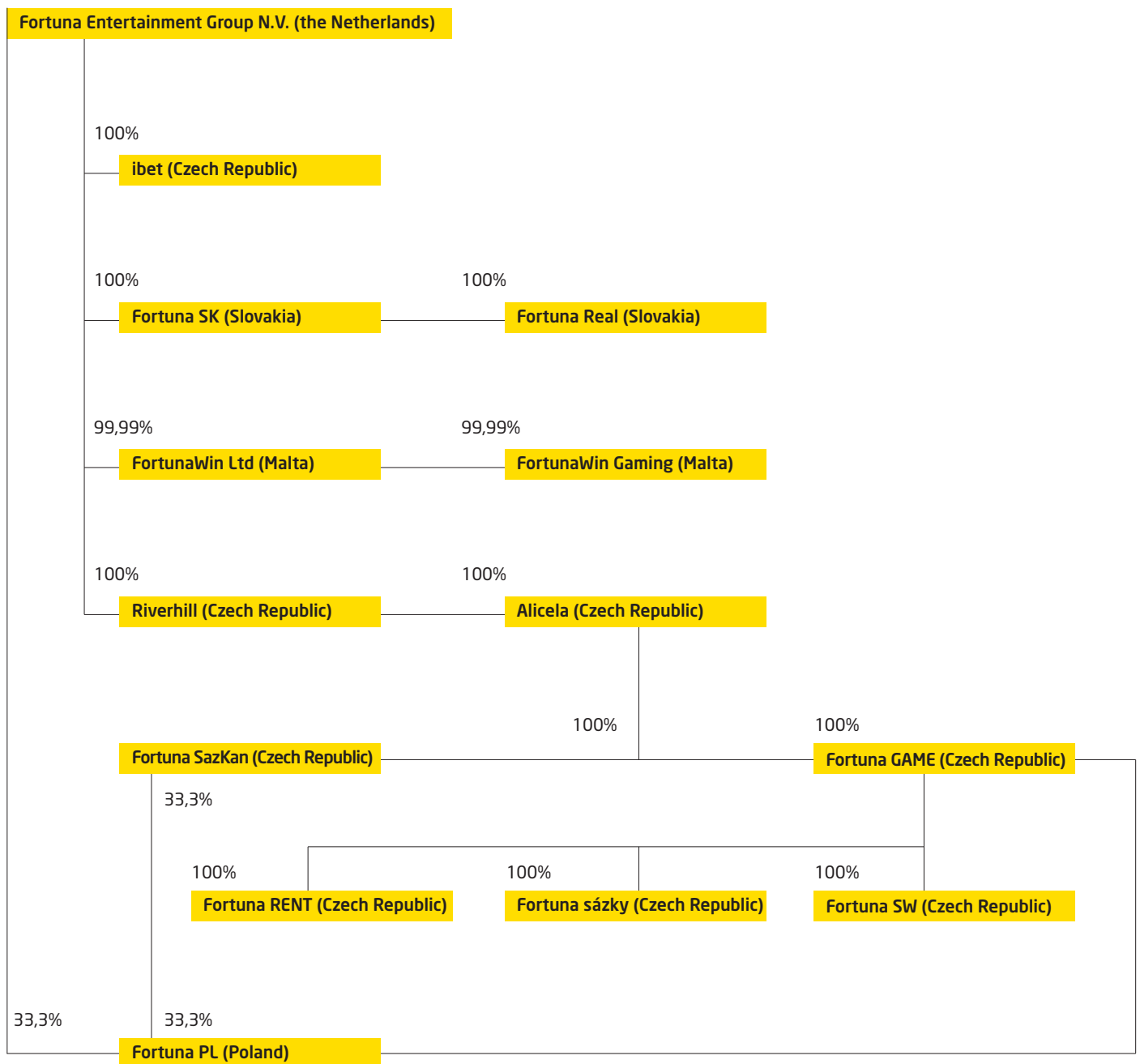
at the end of
2011, Fortuna had
1,426 outlets in
three countries



8. Corporate Governance

8.1 Organizational Structure

The diagram below presents the current structure of the Group as of 31 December 2011:



Source: Company Data

Riverhill and Alicela are holding companies whose sole activity is holding interests in Czech operational companies. This structure results from Czech regulations that do not allow foreign entities or entities, the direct parent entity of which is a foreign entity, to hold interests in a Czech betting company. Similarly, a shareholder of a Polish betting company may not hold more than one third of the share capital. Therefore, FEG, Fortuna GAME and Fortuna SazKan hold shares in Fortuna PL. Fortuna sázky a.s. is a dormant company, a 100% owned subsidiary of Fortuna GAME.

In addition, Maltese law does not allow for the holding of the entire share capital in a limited liability company by a sole shareholder being a corporate entity. Therefore, with respect to both Maltese companies, one share is held by Jozef Janov – Chairman of the Supervisory Board of FEG.

Information on significant subsidiaries

FORTUNA sázková kancelář a.s. (now Fortuna Loterie a.s.) was incorporated on 29 March 1990 in Prague as a joint stock company under Czech law by a group of private individuals. Alicela acquired shares in Fortuna SazKan in 2005. From its beginnings, the company was involved in the betting business. The company's first betting office in the Czech Republic was opened on 1 May 1990. The current licence was issued in November 2008 and is valid until 2018. In 2007, Fortuna SazKan started to operate fixed-odds betting via telephone (Telekonto) and in 2008 obtained a licence to operate fixed-odds betting via the Internet, valid until December 2018. In July 2010 the company obtained a licence for the operation of a lottery game, valid until 8 July 2013.

In 2011, FORTUNA sázková kancelář a.s. was split up and a part of its operation related to sports betting was transferred to Fortuna GAME. The rest of the company related to the numerical and instant lottery games was renamed Fortuna Loterie a.s., effective as of January 4, 2012.

Fortuna GAME was incorporated on 3 October 1991 in Prague as a joint stock company under Czech law. In 2005, all shares in the company were acquired by Alicela. In the beginning, Fortuna GAME owned a warehouse in Brandýs nad Labem that was rented to Fortuna SazKan. In 2009, as a result of the transfer of part of the operations of Fortuna SazKan, the company started to offer sports betting in accordance with a licence issued on 19 May 2009, valid until 2019. At the end of December 2011, assets and operations related to the sports betting business were transferred to Fortuna GAME from FORTUNA sázková kancelář a.s.

Fortuna SK was incorporated on 25 April 1991 in Bratislava as a joint stock company under Slovak law. It was established as Terno, a.s. by Fortuna SazKan and two private persons. In 2005, all the shares in Fortuna SK were acquired by Penta First Fund Limited. In the same year, all the shares were transferred on to Penta. In 2006, the company was renamed Fortuna SK. FEG acquired 100% of all shares in Fortuna SK in January 2010. Currently, Fortuna SK offers fixed-odd betting (both land and online) under a licence issued in 2005, valid until 2015.

Fortuna PL was founded in 1995 as a limited liability company under Polish law. In 2005, all shares were sold to Penta Investments Limited (an entity that subsequently changed its name to Penta First Fund Limited), Lunga Enterprises Limited and Massarosa Holdings Limited (the last two entities being special purpose vehicles in the Penta group). In 2006, the stake owned by Penta First Fund Limited was transferred on to Penta Investments Limited. In 2007, the name of the company was changed from Profesjonal to Fortuna PL. From its beginning, the company operated in the betting sector. The current operations are conducted in accordance with a number of betting permissions issued for particular outlets in the years 2005–2009 that will expire in the years 2011–2015. In November 2009, Fortuna PL obtained permission for a virtual horseracing organization for six years. FEG acquired 1/3 (33.3%) of the shares in Fortuna PL in May 2010. The remaining shares were purchased by Fortuna SazKan (33.3%) and Fortuna GAME (33.3%).

FortunaWin Ltd. was founded in 2009 in Ta'Xbiex as a limited liability company under Maltese law. In 2010, it obtained three letters of intent (temporary licences), entitling it to organize betting and also to host and manage two Microgaming platforms. In June 2010, the company started its online operations.

FortunaWin Gaming Ltd. was founded in 2009 in Ta'Xbiex as a limited liability company under Maltese law. In 2010, it obtained a letter of intent (a temporary licence), entitling it to organize betting. In June 2010, the company started its online operations.

ibet was founded in 2010 in Prague as a limited liability company under Czech law. The company provides support services such as a call centre in the Czech Republic.

Fortuna SW was founded in 2004 in Prague as a limited liability company under Czech law. NAVI PRO, s.r.o. developed software, including betting software for Group Companies. In March 2010, the company was acquired by Fortuna GAME and in April 2010 it was renamed FORTUNA software, s.r.o.

Fortuna Rent was founded in 2004 in Prague as a limited liability company under Czech law. At the beginning, Fortuna SazKan was the sole shareholder in the company. The main objective of the company is the management of the sites portfolio. Lease agreements with VAT charges regarding betting outlets operated by Fortuna SazKan and Fortuna GAME were transferred on to Fortuna Rent. In 2011, Fortuna GAME became the sole shareholder in Fortuna Rent.

Fortuna REAL was founded in 2006 in Bratislava as a limited liability company under Slovak law. The sole purpose of the company is the leasing of premises in Polus City Centre, a shopping and business centre in Bratislava.

Call option for Fortuna HR

In January 2008, Equinox Investments B.V., a Penta subsidiary, acquired shares in Fortuna HR. In 2009 and 2010, FEG entered into several transactions in which it acquired operating companies, including, among others, Fortuna HR, and ancillary companies that were under the common control of Penta. However, due to the pending restructuring of Fortuna HR and the regulator's delay in the introduction of online betting in Croatia, there was uncertainty about if and when Fortuna HR's profitability would be restored. Therefore, FEG decided on the subsequent exclusion of Fortuna HR from the Group and all shares in Fortuna HR held by FEG, constituting 90% of the share capital in Fortuna HR, were sold back to Equinox Investments B.V. in March 2010 for a consideration of EUR 1.

In September 2010, FEG entered into an agreement with Equinox Investments B.V. under which it had a call option for all shares in Fortuna HR held by Equinox Investments B.V., which as of 31 December 2010 constituted 90% of the share capital in Fortuna HR. The option could be exercised within the three-year period starting from 1 July 2011, provided that Fortuna HR reports positive recurring EBITDA for three consecutive quarters. The purchase price was set at EUR 1 and the net debt (understood as interest bearing debts, including any shareholder loans, minus cash and cash equivalents, excluding restricted cash) at the date of transfer of the shares in Fortuna HR should not exceed EUR 12 million. In the case that the net debt exceeded EUR 12 million at the date of exercise of the option, Equinox Investments B.V. should capitalize Fortuna HR to decrease the net debt to the amount of EUR 12 million. In addition, FEG had a right of first refusal which entitles it to purchase shares in Fortuna HR for the amount offered by a third party wishing to acquire shares in Fortuna HR. In the case that FEG did not acquire shares in Fortuna HR for the indicated amount, Equinox Investments B.V. could sell the shares in Fortuna HR to such a third party and the call option would expire with respect to the shares sold to the third party. The call option and the right of first refusal would automatically expire on 1 July 2014 provided that it was not exercised on or before such date. Moreover, the option would expire if the minority shareholder of Fortuna HR, Mr. Velimir Čerkez, exercises the "buy-you-buy-me option".

On 3 August 2011, the Management Board of Fortuna Entertainment Group N.V. received a notice from Equinox Investments B.V. inviting FEG to exercise its right to purchase shares in Fortuna HR pursuant to an offer from an unnamed third party. Based on a weak performance of Fortuna HR, the Management Board of Fortuna Entertainment Group N.V. decided not to exercise the option and informed Equinox Investments B.V. accordingly. As a result of that, FEG is no longer entitled to purchase shares in Fortuna HR and the option ceased to be included on Fortuna's statements. The fair value of the option was nil and was included on Fortuna's statement of its financial position. The option was revalued on a quarterly basis and potential movements in the fair value of the option was accounted for in the statement of income of FEG.

8.2 The Management

FEG has a two-tier board structure consisting of the Management Board (raad van bestuur) and the Supervisory Board (raad van commissarissen).

Management Board

A member of the Management Board is appointed for a maximum period of four years and may be reappointed. The Articles of Association do not include any nomination rights in connection with the appointment of members of the Management Board. The General Meeting may suspend or dismiss Management Board members at any time. The Supervisory Board may also suspend Management Board members at any time, for a maximum period of up to three months. The suspension may be revoked at any time by a majority vote of the General Meeting.

Under the Articles of Association, all resolutions of the Management Board must be adopted by an absolute majority of the votes cast. The Supervisory Board may resolve that specific actions of the Management Board must be approved by the Supervisory Board. The actions of the Management Board that are subject to this veto right by the Supervisory Board must be clearly specified and communicated to the Management Board in writing.

As of 31 December 2011, the Management Board was composed of four members. The table below sets forth the names, positions, election date, and terms of office of the current members of the Management Board:

Name	Position	Office Term in 2011	Expiration of the office term
Wilfred Thomas Walsh	Vice Chairman of the Management Board	1 January 2011 – 31 December 2011	at the General Meeting held in 2014
Janka Galáčová	Member of the Management Board	1 January 2011 – 31 December 2011	at the General Meeting held in 2014
Richard van Bruchem	Member of the Management Board	1 January 2011 – 31 December 2011	at the General Meeting held in 2014
Jiří Bunda	Chairman of the Management Board	1 January 2011 – 31 December 2011	Resigned as of 31 December 2011

The business address of the members of the Management Board is FEG's principal place of business at Strawinskylaan 809 WTC T.A/L 8, 1077XX Amsterdam, the Netherlands.

Brief biographical and professional details concerning the Company's directors are set forth below:

Wilfred Thomas Walsh

Wilfred Thomas Walsh has been Vice Chairman of the Management Board since September 2010. He started his career in 1994 at HMV Group Limited, where he was managing director in Germany and operations director in the United Kingdom. In 2000–2007, he held managerial positions at Gala Coral Group, Bookmaker Afternoon Greyhound Services Limited (2002–2007) and Tote Direct Limited (2003–2005). Furthermore, in December 2009 he was appointed as a non-executive director at the British Horseracing Association (Racing For Change). Since April 2009, he has been a partner in Predict (Performance Improvement Limited). He started to cooperate with the Group in 2009 as an external strategic advisor. After the resignation of Jiří Bunda from the positions of CEO and Chairman of the Management Board, Wilfred Walsh became the acting CEO of FEG.

Wilfred Thomas Walsh has a university degree, gained at the Law Faculty of the University of Leeds in 1983. Subsequently, in 1985, he became a Chartered Fellow of the Institute of People Development at Thames Valley University.

Richard van Bruchem

Richard van Bruchem has been a member of FEG's Management Board since September 2010. He has experience in accounting and management gained through work in key positions in numerous companies from the late 1980s. Richard van Bruchem's recent track record includes work as a financial director at, inter alia, ING Management B.V., Orangefield Trust B.V. and, eventually, at Avis Financial Corporation, where he has been a member of the management committee and the managing director since 2008.

Richard van Bruchem holds bachelor degrees in Business Administration from Amsterdam's Hogeschool Markus Verbeek and Business Economics from Breda's Hogeschool Brabant and a master's degree in Accounting and Controlling from Nyenrode Business University in Breukelen. He has also obtained an Executive Programme in Strategic Management Certificate from RSM Erasmus University of Rotterdam.

Janka Galáčová

Janka Galáčová was appointed to FEG's Management Board in September 2010. She has worked as an accountant for consulting companies, including the Dutch branches of Deloitte and Touche, Ernst & Young and Finsens. Between 2006 and 2010, Ms. Galáčová was Senior Business Consultant at Atos Consulting in Utrecht. In February 2010, she founded her own company, ChanceOn Interim, based in Zwaag.

Jiří Bunda

Jiří Bunda held the position of Chairman of FEG's Management Board since September 2010. In the years 1997–2002, he was employed at GE Capital Czech Republic and Slovakia as sales finance manager. Furthermore, in the years 2006–2009, Jiří Bunda was associated with Zepter International, where he held the post of general manager in both the Czech Republic and Slovakia and then in Russia. To increase his professional qualifications, Jiří Bunda took part in numerous training and professional courses, including the courses Six Sigma – Black Belt (2000), Project Management Process and Leadership organized by Team Technologies and numerous Business Success training courses for top management in the years 2007–2009. Jiří Bunda resigned from his positions of CEO and Chairman of the Management Board effective from 31 December 2011.

The following table sets out past and current directorships held by FEG's Management Board in the past five years:

Wilfred Thomas Walsh

Current directorships:	Predict Performance Improvement Limited – director (from 2009)
	Racecourse Enterprises Ltd – non-executive director (from 2010)
	Gala Coral Group – non-executive director of the board of directors (from 2010)

Richard van Bruchem

Former directorships:	General Continental Properties B.V. – member of the management board (2007–2008)
	General Continental Netherlands B.V. – member of the management board (2007–2008)
	Canandaigua B.V. – member of the management board (2007–2008)
	PR Ventures B.V. – member of the management board (2007–2008)
	General Continental Netherlands II B.V. – member of the management board (2007–2008)
	Daiwa Securities SMBC Asia Holding B.V. – member of the management board (2007–2008)
	Protoned B.V. – member of the management board (2007–2008)
	Uralita Holding B.V. – member of the management board (2007–2008)
	Coöperatieve Peacefield UA – member of the management board (2007–2008)
	Peacefield Holdings N.V. – member of the management board (2007–2008)
	Afrosi Holdings B.V. – member of the management board (2007–2008)
	MBB Project 34 B.V. – member of the management board (2010–2011)
	Servadou Holding B.V. – member of the management board (2010–2011)
	R2a Holding B.V. – member of the management board (2010–2011)
	Trust Company Amsterdam B.V. – member of the management board (2010–2011)
	BPO Solutions B.V. – member of the management board (2008–2011)
	Panorama Equity Investments B.V. (formerly Avis Corporate Services B.V.) – member of the management board (2009–2011)
Current directorships:	The Bookkeeper B.V. (formerly B.V. Investerings Sinds 1391) – member of the management board (from 2008)
	R2 Holding B.V. – member of the management board (from 2008)
	Avis Holding B.V. – member of the management board (from 2009)
	Avis Trust Group B.V. – member of the management board (from 2009)
	Avis Accounting B.V. – member of the management board (from 2009)
	Stichting Kunstbezit's-Graveland – member of the management board (from 2008)

Janka Galáčová

No other directorships.

Jiří Bunda

Former directorships:	ZEPTER INTERNATIONAL s.r.o. – executive (2006–2010)
	ZEPTER FINANCE s.r.o. – executive (2007)
	FORTUNA sázky a.s. – member of the management board (2010–2011)
	FORTUNA GAME a.s. – member of the management board (2010–2011)
	FORTUNA sázková kancelář a.s. (now Fortuna Loterie a.s.) – member of the management board (2010–2011)
	RIVERHILL a.s. – member of the management board (2011)

Supervisory Board

A member of the Supervisory Board is appointed for a maximum period of four years. After holding office for four years, supervisory directors are eligible for re-election only twice for a full period of four years. The Articles of Association do not include any nomination rights in connection with the appointment of members of the Supervisory Board. The General Meeting may suspend or dismiss Supervisory Board members at any time.

The Supervisory Board must have at least three members. The exact number of members of the Supervisory Board is determined by the General Meeting. The Supervisory Board will appoint a Chairperson, and may appoint a Vice Chairperson, from amongst its members. The General Meeting may at any time suspend or dismiss Supervisory Board members. The Articles of Association provide that the terms of office of the Supervisory Board members will expire periodically in accordance with a rotation plan drawn up by the Supervisory Board. Under the Articles of Association, the Supervisory Board can only adopt resolutions by an absolute majority of the entire number of members of the Supervisory Board. Each member of the Supervisory Board is entitled to one vote.

As of 31 December 2011, the Supervisory Board was composed of four members. The table below sets forth the names, positions, election date, and terms of office of the current members of the Supervisory Board:

Name	Position	Office Term in 2011	Expiration of the office term
Jozef Janov	Chairman of the Supervisory Board	1 January 2011 – 31 December 2011	at the General Meeting held in 2014
Václav Brož	Member of the Supervisory Board	1 January 2011 – 31 December 2011	at the General Meeting held in 2014
Michal Horáček	Member of the Supervisory Board	1 January 2011 – 31 December 2011	at the General Meeting held in 2014
Marek Rendek	Member of the Supervisory Board	25 May 2011 – 31 December 2011	at the General Meeting held in 2015
Martin Kúšik	Member of the Supervisory Board	1 January 2011 – 24 May 2011	Resigned as of 24 May 2011

The business address of the members of the Supervisory Board is FEG's principal place of business at Strawinskylaan 809 WTC T.A/L 8, 1077XX Amsterdam, the Netherlands.

Jozef Janov

Jozef Janov has been the chairman of the Supervisory Board since September 2010. He has been working for Penta group since 2003, starting as investment manager and then becoming investment director. Currently, as a managing partner in Poland, he coordinates Penta's investments in this market. In 2003, Jozef Janov graduated from the University of Economics in Bratislava and Martin-Luther University Halle-Wittenberg, majoring in international finance and banking. Jozef Janov is a Slovak national.

Václav Brož

Václav Brož has been a member of the Supervisory Board since September 2010. In 2001, he commenced his professional activity at the Komise pro cenné papíry, where he worked until 2004. He has been with Penta group since 2004, previously as an investment analyst and later as investment manager. Václav Brož has a university degree gained at the University of Economics, Prague, in 1999. Václav Brož is a Czech national.

Michal Horáček

Michal Horáček has been a member of the Supervisory Board since September 2010. He started to cooperate with the Group as chairman of the FORTUNA sázková kancelář a.s. management board. He held this position from 1990 to 2004. Subsequently, he held various lecturing positions at Charles University in Prague and Masaryk University in Brno and regularly contributed to Business Daily, Hospodářské noviny (the Czech Republic's paramount financial, economic and business daily). He is an owner of KUDYKAM, s.r.o. and a member of the supervisory board of Knihovna Václava Havla, o.p.s. (Václav Havel Library). Michal Horáček graduated from Charles University, Prague, Faculty of Humanities, and from Macalester College, St Paul, Minnesota, USA (American Studies). Currently, he is a doctoral student in anthropology at the Faculty of Humanities, Charles University, Prague. Michal Horáček is a Czech national.

Marek Rendek

Marek Rendek has been a member of the Supervisory Board since May 2011. He has worked for PENTA GROUP since 2002, starting as a financial manager assistant, and becoming a senior treasurer. Currently, as Managing Director, Penta Investments Limited, Dutch Branch in Amsterdam, he is responsible for the day to day management of the branch and Penta holding companies allocated to the Netherlands. Marek Rendek graduated from the Technical University in Košice in 2001, majoring in banking, finance and investments. His broad experience globally in the industry responds to several important areas of the Supervisory Board profile. The participation of Marek Rendek on the Supervisory Board therefore strengthens and broadens the Board's oversight of the Company. Marek Rendek is a Slovak national.

Martin Kúšik

Martin Kúšik was appointed to the Supervisory Board in September 2010 and resigned as of 24 May 2011. He is one of the founders of Penta group and since 1999 he has been responsible for different projects. Currently, he holds positions on the management boards of PFSE, a.s. and WFSE, a.s., as well as on the supervisory board of Penta Reality, a.s. He is also a shareholder of Penta Holding Limited and Belet Holdings Limited. In 1992 Martin Kúšik graduated from the Law Faculty of Charles University, Prague, and in 1995 he gained a PhD in law. Martin Kúšik is a Slovak national.

The following table sets out the past and current directorships held by FEC's Supervisory Board in the past five years:

Jozef Janov	
Former directorships:	Fortuna zakłady bukmacherskie Sp. z o.o. – member of the management board (2005–2007)
	Tesco Franchise Stores ČR a.s (formerly Žabka, a.s.) – chairman of the management board (2007–2010)
	Severomoravské vodovody a kanalizace Ostrava a.s. – member of the management board (2004–2006)
	Novoker, a.s. – chairman of the management board (2005–2007)
	Mediclinic a.s. – chairman of the supervisory board (2007–2008)
	Letiště Vodochody a.s. – chairman of the supervisory board (2007–2008)
	Oakfield a.s. – member of the management board (2005–2010)
	Žabka Polska S.A. – chairman of the supervisory board (2007–2011)
	Tesco Franchise Stores ČR a.s (formerly Žabka, a.s.) – chairman of the supervisory board (2010–2011)
Current directorships:	Okna Rabień S.A. – chairman of the supervisory board (from 2009)
	Noves okná, a.s. – chairman of the supervisory board (from 2009)
	Keladone a.s. – chairman of the supervisory board (from 2010)

Václav Brož

Former directorships:	Helatia a.s. – member of the management board (2005–2009)
	Medireco a.s. – member of the management board (2006–2008)
	Davonet Ltd – member of the management board (2007–2008)
	TES VSETÍN, s.r.o. – executive director (2008–2009)
	MobilKom, a.s. – member of the supervisory board (2006–2008)
	Steelco a.s. – member of the supervisory board (2005–2009)
	Keladone a.s. – member of the supervisory board (2009–2010)
	Alicela a.s. – member of the management board (2005–2010)
	Riverhill a.s. – member of the supervisory board (2009–2010)
	MEZSERVIS spol s.r.o. – member of the supervisory board (2010)
	MEZSERVIS a.s. – member of the management board (2009–2011)
	TES Vsetín, a.s. – member of the management board (2008–2011)
	MobilKom, a.s. – member of the management board (from 2008–2011)
	Inovatel sp.z o.o. – member of the management board (2006–2011)
	Fortuna GAME a.s. – member of the supervisory board (from 2011)
Current directorships:	Fortuna Loterie a.s. – member of the supervisory board (from 2011)

Michal Horáček

Current directorships:	SIAM PRAHA spol. s.r.o. – executive (from 1999)
	Knihovna Václava Havla, o.p.s. – member of the supervisory board (from 2006)
	KUDYKAM, s.r.o. – executive (from 2008)

Marek Rendek

Current directorships:	CARE UP B.V. – director (from 2011)
	DENDA BEHEER B.V. – director (from 2009)
	Dr.MAX HOLDING B.V. – director (from 2009)
	Equinox Investments B.V. – director (from 2009)
	HODONIN B.V. – director (from 2011)
	KAUFSTEIN B.V. – director (from 2009)
	PENTA INVESTMENTS LIMITED, DUTCH BRANCH – managing director (from 2011)
	PENTA INVESTMENTS B.V. – director (from 2011)
	SALORI HOLDING B.V. – director (from 2009)
	SANDWEDGE B.V. – director (from 2009)
	WEDGESAND B.V. – director (from 2009)
	VYSEHRAD HOLDING B.V. – director (from 2010)
	Dr.MAX PHARMA LIMITED – director (from 2011)
	SALSTRONA HOLDINGS LIMITED – director (from February 2012)

Václav Brož, Marek Rendek and Jozef Janov are associated with Penta Investments Limited and AIFELMONA HOLDINGS LIMITED. Jozef Janov, Václav Brož and Marek Rendek hold management posts within the organizational structure of Penta Investments Limited, have access to inside information related to Penta Investments Limited and are authorized to make decisions concerning the development of Penta Investments Limited. Jozef Janov is Chairman of the Supervisory Board of Fortuna Entertainment Group N.V. Václav Brož and Marek Rendek are members of the Supervisory Board of Fortuna Entertainment Group N.V. Jozef Janov, Václav Brož and Marek Rendek receive benefits from the operations of AIFELMONA HOLDINGS LIMITED or their interests are equivalent to the interests of AIFELMONA HOLDINGS LIMITED.

Therefore, due to the fact that the interests of the Group are not always in line with the interests of Penta, a conflict of interest may occur from time to time. Other members of the Management Board and the Supervisory Board have no conflicts of interests with respect to their duties to FEG and their private interests and/or other duties.

As of the date of this Annual Report, except as stated above, none of the members of the Management Board or Supervisory Board has in the previous five years (i) been convicted of any offences relating to fraud, (ii) held an executive function at any company at a time of or immediately preceding any bankruptcy, receivership or liquidation, (iii) been subject to any official public penalties by any statutory or regulatory authority (including any designated professional body) or (iv) been the subject of any public prosecution or been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or performance of the affairs of any company.

All members of the Management Board and the Supervisory Board provide their services pursuant to letters of appointment/service agreements. These contracts are established for an initial period of 4 years but may be terminated earlier in accordance with provisions included therein and relevant regulations. The members of the Management Board have further agreed not to accept any appointment which might involve a conflict of interest without prior written consent of the Supervisory Board. For the term of their appointments, members of the Management Board have also agreed to refrain from undertaking, holding or accepting any appointments, sidelines or additional posts at other listed companies which are competitors to the FEG or the Group Companies without prior written consent of the Supervisory Board. The members of the Supervisory Board have further agreed not to accept any appointment which might involve a conflict of interest without prior written consent of the Supervisory Board and refrain from undertaking or holding any sidelines or additional posts at other listed companies without prior written consent of FEG. They have also undertaken not to disclose any confidential information received in connection with, or related to, FEG or Group Companies, their business and affairs.

Committees

As of the date of this Annual Report, the Supervisory Board has established from among its members the Audit Committee. The role and responsibilities of the Audit Committee, as well as its composition and the manner in which it operates and discharges its duties, are set out in regulations for the Audit Committee, as drawn up by the Supervisory Board. The members of the Audit Committee are currently Michal Horáček and Jozef Janov. Jozef Janov, Chairman of the Supervisory Board, currently acts as Chairman of the Audit Committee. The Company believes that it is in the best interest of the Company and the Group to maintain Jozef Janov as Chairman of the Audit Committee due to his extensive financial knowledge of the Group. The Company believes that Jozef Janov meets the description of a financial expert as referred to in the Dutch Corporate Governance Code and the Dutch Act on the Supervision of Audit Organizations.

The Audit Committee meets as often as one or more members of the Audit Committee deems necessary, but in any event meets at least once a year with FEG's external auditor, without the Management Board being present.

The governance structure of FEG is currently being developed and the Company does not exclude the establishment of additional committees.

General Meeting

FEG, as a Dutch company, must hold at least one annual General Meeting of shareholders, to be held in the Netherlands not later than 6 months after the end of the financial year. The annual General Meeting is, among other things, entitled to discuss the annual report of the Management Board with respect to the general state of affairs of FEG, approve the financial statements for the previous financial year, vote whether to grant a discharge to members of FEG's corporate bodies, and/or appoint members to fill any vacancies on any of the corporate bodies. Notices of shareholders meetings must be published on Fortuna's website and also in accordance with applicable regulations in the Czech Republic and in Poland – at least forty two (42) days before the day of the meeting. The Management Board, acting with the approval of the Supervisory Board, determines the items on the agenda for the General Meeting. In addition, any shareholders holding more than 1% of issued and outstanding shares or who hold shares having a value of EUR 50 million or more may submit proposals for inclusion on the agenda of any General Meeting. The proposal must be included on the agenda provided that FEG receives such proposals no later than 60 days before the General Meeting.

An extraordinary General Meeting may be convened, whenever FEG's interests so require, by the Management or Supervisory Board. A single shareholder or those representing in aggregate at least 10% of issued and outstanding share capital may also call an extraordinary General Meeting with an agenda to be determined by the shareholders calling the meeting. Under Dutch law, valid shareholders' resolutions may be taken in a meeting outside the Netherlands, provided that the entire issued share capital is represented at such a meeting.

Shareholders may participate in the General Meeting and exercise their voting rights personally or by proxy. Each share in the capital of FEG confers the right to cast one vote, subject to the relevant provisions of the Articles of Association, subject to and with due observance of the relevant provisions of the Articles of Association regarding the acquisition of own shares. Every holder of shares and every other party entitled to attend the General Meeting who derives his rights from such shares, is entitled to attend the General Meeting in person, or be represented by a person holding a written proxy, to address the General Meeting and, in as far as he has voting rights, to vote at the meeting, if he has lodged documentary evidence of his voting rights. For this purpose, Dutch law prescribes a mandatory record date to establish which shareholders are entitled to attend and vote at the General Meeting. Such a record date is fixed at the 28th day before the said General Meeting. The convocation to the General Meeting shall state the record date, the place where the General Meeting shall be held and the manner in which registration shall take place.

Unless provided otherwise in the Articles of Association or the law, all resolutions are adopted by an absolute majority of votes. FEG must record the voting results for each resolution adopted at the General Meeting. These results must be posted on Fortuna's website no later than on the 15th day following the day of the General Meeting and should be available on the website for at least one year. Detailed information regarding participation and voting at General Meetings will be included in the notice of the General Meeting published in accordance with relevant regulations in the Netherlands, Poland and the Czech Republic.

Annual General Meeting of May 25, 2011

The General Meeting of shareholders of Fortuna Entertainment Group N.V. was held on 25 May 2011 in Amsterdam. It was attended by shareholders who together hold 73.18% of the share capital and voting rights and therefore the General Meeting had a quorum. At Fortuna's AGM, all of the resolutions that were subject to shareholder approval were adopted. The adopted resolutions were the following:

The General Meeting of Fortuna Entertainment Group N.V. adopted the statutory financial statements of the Company for the financial years 2009 and 2010 as drawn up by the Management Board and as approved by the Supervisory Board. The financial statements of the Company for the financial year 2009 were prepared under Dutch law by the Management Board and were audited and provided with the unqualified auditor's report by Ernst & Young Accountants LLP. The annual accounts for the financial year 2010 were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code by the Management Board and were audited and provided with the unqualified auditor's report by Ernst & Young Accountants LLP, the Company's external auditor.

The General Meeting adopted the financial statements of the Company for the financial year 2009 and the Company's annual accounts for the financial year 2010.

The General Meeting approved a Management Board's proposal to effect gross dividend payments of EUR 0.30 in cash per share with a nominal value of one euro cent (EUR 0.01) for the financial year 2010. The dividend record date was set at June 8, 2011. The actual payment of the dividend occurred on June 24, 2011.

The proposal was based on a diligent analysis of the Company's results and anticipated performance carried out by the Company's Management Board, after taking into account any circumstances that may have a negative impact on the Company's freely distributable reserves, including the Company's business prospects, future earnings, cash requirements, envisaged costs and expenses as well as expansion plans, and provided that such a dividend payment would not impair the capital structure of the Company. The dividend proposal is in accordance with the communicated dividend policy – the dividend payout ratio is 70–100% of the net profit from the continuing operations (consolidated accounts). The proposed dividend pay-out for 2010 represents approximately 90% of the net profit from the continuing operations (consolidated accounts).

In accordance with the advice of the Audit Committee, the Annual General Meeting appointed Ernst & Young Accountants LLP as the external auditor of the Company for the financial year 2011.

The General Meeting granted full discharge to each of the members of the Management Board for the performance of their management during the 2010 financial year. The General Meeting granted full discharge to each of the members of the Supervisory Board for the performance of their supervision during the 2010 financial year.

The General Meeting approved the annual remuneration (starting from the beginning of 2011) of each member of the Supervisory Board. The approved remuneration is in accordance with the respective service agreements of the relevant members of the Supervisory Board as entered into with the Company. No remuneration over 2010 was granted to members of the Supervisory Board.

No proposal was presented to the General Meeting to appoint a new member to the Management Board.

The General Meeting appointed Marek Rendek as a new member to the Supervisory Board for a period of four (4) years in accordance with the articles of association of the Company. His appointment was effective as of 25 May 2011.

The General Meeting authorized the Management Board, subject to the approval of the Supervisory Board, for a period of eighteen months as of May 25, 2011 to purchase fully paid-up shares in the Company's own capital on the stock exchange or otherwise for valuable consideration and to alienate shares in the Company's own capital, which shares were repurchased by the Company whether before or after May 25, 2011, for purposes of stock option plans and other general corporate purposes.

The General Meeting also discussed the corporate governance policy of the Company adopted by the Management Board and Supervisory Board based primarily on the Dutch Corporate Governance Code. As a company registered in the Netherlands, and listed in the Czech Republic and Poland, Fortuna Entertainment Group N.V. has established a corporate governance framework, which takes into account international best practice requirements. The policy also complies with the spirit of the substantive requirements of codes in the Czech Republic and Poland.

Amendment of Articles of Association

The General Meeting may resolve to amend the Articles of Association upon a proposal of the board of managing directors, if the proposal has been approved by the Supervisory Board. Such a resolution shall be taken by an absolute majority of votes cast. If a proposal to amend the Articles of Association is to be submitted to the General Meeting, the convening notice must state this fact. At the same time, if the proposal is for an amendment to the Articles of Association, a copy of the motion containing a verbatim text of the proposed amendment must be deposited at the Company's office for inspection by the shareholders and depositary receipt holders until the meeting is adjourned.

8.3 Remuneration

Remuneration of the Management Board

The remuneration of the members of the Management Board is determined by the Supervisory Board, in accordance with the remuneration policy adopted by the General Meeting. The members of the Management Board are not granted any pensions, retirement or similar benefits by FEG or the Group Companies.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board is determined by the General Meeting, in accordance with the remuneration policy. The members of the Supervisory Board are not granted any pensions, retirement or similar benefits by FEG or the Group Companies.

Remuneration of Senior Management

The remuneration of Senior Management is paid by Group Companies. It is divided into fixed component and variable component (bonus). A specific business plan is determined for each region and/or for Fortuna Group (as a whole or any part thereof) before the respective financial year and includes revenues, gross profit and EBITDA or gross win. The variable part is a percentage of the total remuneration and is due when the business plan is fulfilled at 80% or 90% at least. Bonuses are paid in cash after the confirmation of the annual results by the auditor. The members of Senior Management are not granted any pensions, retirement or similar benefits by FEG or the Group Companies.

The table below presents total remuneration for the financial year ending 31 December 2011:

(in EUR thousand)		Remuneration (2011)				TOTAL
		Fortuna Entertainment Group N.V. Pecuniary Income	Received in kind	Other Group Companies Pecuniary Income	Received in kind	
Members of the Management Board	Board Remuneration	50	-	-	-	50
	Salaries and other similar income	17	-	136	-	153
	Management Bonus	-	-	188	-	188
	Other (compensation)	-	-	-	-	-
	TOTAL	67	-	324	-	391
Members of the Supervisory Board	Board Remuneration	40	-	-	-	40
	Salaries and other similar income	-	-	-	-	-
	Management Bonus	-	-	-	-	-
	TOTAL	40	-	-	-	40
Management of the Group Companies*	Salaries and other similar income	-	-	497	-	497
	Management Bonus	-	-	176	-	176
	Board Remuneration (incl. Supervisory board)	-	-	3	-	3
	TOTAL	-	-	676	-	676
TOTAL		107	-	1,000	-	1,107

* In compliance with the definition of "persons discharging managerial responsibilities within an issuer" according to Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse) and Commission Directive 2004/72/EC of 29 April 2004 implementing Directive 2003/6/EC.

The management of the Group Companies is allowed to use a company car for personal purposes.

Stock Option Plan

The General Meeting of Fortuna Entertainment Group N.V. held in Amsterdam on 25 May 2011 authorized the Management Board, subject to approval by the Supervisory Board, to purchase over a period of 18 months from 25 May 2011, the fully paid-up shares of the company's own capital on the stock exchange or elsewhere for payment within the period of 18 months, beginning 25 May, and to transfer the shares from the company's own capital that were purchased prior to or after 25 May 2011 for purposes of stock option plans and other general corporate purposes. Following authorization by the General Meeting, the Company adopted the stock option plan (hereinafter referred to as the "Plan") based on the principals stipulated below. The Plan will be implemented and administered by the Management Board and the Remuneration Committee established by the Supervisory Board. The Plan is valid from 30 June 2011 and the granting of options to eligible employees is subject to consent by signature. Total number of option granted as of December 31, 2011 was 253,000.

Eligibility

Employees in the betting divisions of the main subsidiaries of Fortuna Entertainment Group N.V. (i.e. Fortuna Entertainment Group N.V., FORTUNA sázková kancelář a.s./Fortuna GAME, Fortuna zakłady bukmacherskie Sp. z o.o., Fortuna SK a.s. and FortunaWin Ltd., Fortuna software s.r.o.), employed by the company on or before 31 December 2010 are eligible to participate in the Plan.

Granting of Options and Exercise Price

Participants in the Plan are granted the option (right) to acquire shares at the exercise price of CZK 115 per share. The number of options granted will be equal to the total number of employees participating in the stock option plan. Each option document contains information regarding the amount of common shares that can be acquired by the eligible employee at the exercise price; the number of shares that can be acquired depends on the employee's position. The option value may be adjusted following a definite variation in the share capital of the company, for example, capitalization, a capital increase, a new share or rights issue, or a consolidation or division of the company.

Exercising of Options

Options granted in 2011 will be vested as of 1 March 2012 provided that the option holder remains an employee of the company and is not serving a notice period. Option holders who cease to be employed prior to 1 March 2012 due to reasons other than resignation or redundancy may exercise their option based on predetermined conditions. Options granted in 2011 can be exercised at any time for a period of one year, i.e. until 28 February 2013.

At the exercise date, the option holder is entitled to remuneration from the company which is calculated as the difference between the closing prices of shares on the Prague Stock Exchange or on the Warsaw Stock Exchange at the exercise date, and the exercise price. The option holder may decide to acquire physical shares. In such a case, the company will purchase shares on behalf of the option holder and transfer them to the respective holder.

Change in Control

In the event of a change in control, all options will be vested and must be exercised until the date of the ownership change of the majority shareholding. In this case, employees are only entitled to financial remuneration; they may not request a share transfer.

Amendments to the Plan

The Supervisory Board may amend the Plan, including any extension, into subsequent calendar years acting upon Board decisions and subject to the provisions of any applicable law.

Except for the information above there were no other transactions between the Group and its Directors, members of the Supervisory Board and insiders.

Information on Shares Held by the Management

As of 31 December 2011, the following Directors and Members of the Supervisory Board held shares or stock options issued by the Company:

Name	Position	Type of Security	Type of Transaction	No. of Securities	% of the total capital
Jiří Bunda	CEO and Chairman of the Management Board of Fortuna Entertainment Group N.V. – resigned as of 31 December 2011	Common Shares	Acquisition	4,100	0.0079%
Marek Rendek	Member of the Supervisory Board of Fortuna Entertainment Group N.V.	Common Shares	Acquisition	5,253	0.01%

As of 31 December 2011, persons discharging managerial responsibilities within an issuer held 2,755 shares in FEG representing 0.005% of the aggregate voting rights and 56,000 stock options issued under the Stock Option Plan described earlier in this document.

Apart from the information provided above, no other member of the Management Board or the Supervisory Board or the Senior Management owns any shares or stock options in FEG.

Indemnity agreements

Antonín Laš entered into an Indemnification Agreement, dated 1 February 2010, with FEG, pursuant to which FEG will be obliged to indemnify Antonín Laš for his actions or failure to act in connection with his work for FortunaWin under the conditions described in the Indemnification Agreement.

Non-compete compensation and employment termination compensation

After the termination of his employment relationship with Fortuna GAME, Michal Hanák is obligated to maintain his non-competition duty for 12 months following the termination of his employment relationship. He is entitled to non-competition compensation in an amount equal to 100% of his monthly average salary for each month of non-competition compliance. Michal Hanák is entitled to an extraordinary bonus payable to him by Fortuna GAME if Fortuna GAME is sold to a third party during his employment or in the period of 3 months following the termination of his employment with Fortuna GAME, i.e. if: (i) a person outside of Penta Group becomes a controlling entity of Fortuna GAME; or (ii) a person outside of Penta Group acquires a majority of Fortuna GAME's assets; or (iii) a person outside of Penta Group becomes a controlling entity of a person owning a majority of Fortuna GAME's assets. Michal Hanák is entitled to a severance payment payable to him by Fortuna GAME if his employment relationship with Fortuna GAME terminates prior to 31 July 2013 for reasons other than misconduct or breach of obligations by Michal Hanák or a termination by Michal Hanák. The severance payment is calculated as a multiple of the monthly wage of Michal Hanák and the number of full calendar months in the period between the date of the termination of his employment relationship with Fortuna GAME and 31 July 2013.

After the termination of his employment relationship with Fortuna GAME, Martin Todt is obligated to maintain his non-competition duty for 12 months following the termination of his employment relationship. He is entitled to non-competition compensation in an amount equal to 100% of his monthly average salary for each month of non-competition compliance. Martin Todt is entitled to an extraordinary bonus payable to him by Fortuna GAME if Fortuna GAME is sold to a third party during his employment or in the period of 3 months following the termination of his employment (for reasons other than: a) misconduct or breach of obligations by Martin Todt or b) a termination by Martin Todt) with Fortuna GAME, i.e. if: (i) a person outside of Penta Group becomes a controlling entity of Fortuna GAME; or (ii) a person outside of Penta Group acquires a majority of Fortuna GAME's assets; or (iii) a person outside of Penta Group becomes a controlling entity of a person owning a majority of Fortuna GAME's assets. Martin Todt is entitled to a severance payment payable to him by Fortuna GAME if his employment relationship with Fortuna GAME terminates prior to 31 July 2013 for reasons other than: a) misconduct or breach of obligations by Martin Todt or b) a termination by Martin Todt. The severance payment is calculated as a multiple of the monthly wage of Martin Todt and the number of full calendar months in the period between the date of the termination of his employment relationship with Fortuna GAME and 31 July 2013.

Apart from the above referenced cases, the service contracts, employment agreements or other similar agreements entered into between FEG or the Group Companies and the members of the Management Board, the Supervisory Board, as well as Senior Management, do not provide for benefits in the case of dismissal or the termination of such persons' service, employment contract or other similar agreement.

8.4 Corporate Governance Code

Corporate Governance Standards

Fortuna is required to state in its Annual Report whether it complies or will comply with the principles and best practice provisions of the Dutch Corporate Governance Code (dated 1 January 2009) and, if it does not comply, to explain the reasons for non-compliance.

FEG has implemented its internal corporate governance rules in order to comply to the extent possible with the Dutch Corporate Governance Code. More specific information regarding the Dutch Corporate Governance Code can be found at:

www.commissiecorporategovernance.nl/Corporate_Governance_Code.

The Company acknowledges the importance of good corporate governance and intends to comply with Czech, Polish and Dutch corporate governance codes as widely as this is practicable. Over the year 2011, the Company did not comply with a limited number of best practice provisions described below:

a) Dutch Corporate Governance Code:

Best Practice Provision III.2.1 according to which all supervisory board members, with the exception of not more than one person, shall be independent. Currently, there is only one independent member on the Supervisory Board. However, the Company does not exclude that the number of independent members will increase further to a new shareholder decision. It is rather unlikely that this rule will be complied with as long as Penta Investments Limited is entitled to a majority of votes.

Best Practice Provision II.2.8 states that severance payments may not exceed the annual salary. Employment contracts of the members of the Management Board, which were entered into before the Code was developed, provide for severance payments that exceed the annual salary. The employment contracts are considered to be in line with standard company policy and the Supervisory Board intends to honour this contractual commitment and is of the view that a deviation from the Code is justified.

Principle II.3 and III.6 relating to conflicts of interest of the Management Board and the Supervisory Board members. The Company acknowledges that members of the Supervisory Board related to Penta Investments Limited may be conflicted from time to time. To the extent possible, the Company shall apply these principles regarding conflict of interest as set forth in the Code, unless the participation of conflicted Supervisory Board members is deemed crucial for the decision-making process of the Company. If such a situation occurs, the Company shall provide for proper disclosures as set forth in best practice provisions II.3.4 or II.6.3.

Principle III.5 according to which, if the Supervisory Board consists of more than four members, it shall appoint from its members an audit committee, a remuneration committee and a selection and appointment committee. The Company decided to establish only an audit committee. Since the remuneration and appointment of current directors and key executives is typical for private-owned companies, the establishment of two additional committees was pointless before the IPO. In the future, new shareholders may decide to establish additional committees.

Best Practice Provision III.5.6 The Audit Committee may not be chaired by the chairman of the supervisory board or by a former member of the management board of the company. Jozef Janov, Chairman of the Supervisory Board, currently acts as Chairman of the Audit Committee; the Company believes, however, that it is in the best interest of the Company and the Group to maintain Jozef Janov as Chairman of the Audit Committee due to his extensive financial knowledge of the Group.

Best Practice Provision III.5.7 according to which at least one member of the Audit Committee shall be a financial expert within the meaning of best practice provision III.3.2. In 2010, none of the members of the Audit Committee was considered a financial expert with relevant experience with listed companies; the Company believes that Jozef Janov now meets the description of a financial expert as referred to in the Dutch Corporate Governance Code and the Dutch Act on the Supervision of Audit Organizations.

b) Prague Stock Exchange Corporate Governance Code:

Chapter IV comment 15 according to which at least the majority of members of the Audit Committee should be independent. The current composition of the Audit Committee is not in compliance with this rule, since there is only one independent member of the Supervisory Board who is a member of the Audit Committee. However, the composition of the Audit Committee may change and an independent member appointed by new shareholders will be asked to become the chairman of the committee.

Chapter VI comment 18 according to which the Company should establish three separate committees responsible for the independent audit, the remuneration and nomination of directors and key executives and the majority of members of these committees should be independent persons. The Company decided to establish only the Audit Committee.

Since the remuneration and nomination of current directors and key executives are typical for privately-owned companies, the establishment of two additional committees was pointless before the IPO. In the future, new shareholders may decide to establish additional committees.

Annex 3 according to which the Supervisory Board should contain a proportion of suitable independent members with a minimum of three or twenty five per cent of the total for larger companies and two or one-quarter of the total for smaller companies. Currently, there is only one independent member on the Supervisory Board. However, the Company does not exclude that the number of independent members will increase further following a new shareholder decision in the future.

c) Warsaw Stock Exchange Corporate Governance Code:

Rule I.9, according to which a balanced proportion of women and men should be ensured in management and supervisory functions in a company. Currently, there is only one woman within the governing bodies of the Company, Janka Galáčová, a member of the Management Board. However, a majority shareholder, Penta Investments Limited, entirely supports this rule and does not exclude the possibility that such a recommendation will be implemented in the future.

Rule II.6, according to which at least two members of the Supervisory Board shall be independent. Currently, there is only one independent member on the Supervisory Board. However, the Company does not exclude that in the future the number of independent members will increase further following a new shareholder decision.

Corporate Governance Standards Poland

Pursuant to the Warsaw Stock Exchange By-laws, and in connection with the listing of the Company's shares on the Warsaw Stock Exchange, the Company is required to declare which of the Polish principles of corporate governance contained in the WSE Corporate Governance Rules it intends to comply with, as well as to enumerate the principles which it does not intend to comply with and to state the reasons for the non-compliance.

The Company has decided to observe the majority of the WSE Corporate Governance Rules as stated in detail below.

**STATEMENT ON WARSAW STOCK EXCHANGE CORPORATE GOVERNANCE RULES
as amended as of 1 January 2008**

Recommendations for Best Practice for Listed Companies

1	A company should pursue a transparent and effective information policy using both traditional methods and modern technologies ensuring fast, secure and broad access to information. Using such communication methods to the broadest extent possible, a company should ensure adequate communication with investors and analysts, enable online broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website.
2	A company should ensure effective access to information necessary to assess the company's situation and outlook as well as its operations.
3	A company should make every effort to ensure that any cancellation of a General Meeting or change of its date should not prevent or restrict the exercise of the shareholders' right to participate in a General Meeting.
4	Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.
5	Remuneration of members of the company's governing bodies should correspond to the scope of tasks and responsibilities of the exercised function and be proportionate to the size of the company's business and reasonable in relation to its financial results.
6	A member of the Supervisory Board should have appropriate expertise and experience and be able to devote the time necessary to perform his or her duties. A member of the Supervisory Board should take relevant action to ensure that the Supervisory Board is informed about issues significant to the company.
7	Each member of the Supervisory Board should act in the interests of the company and form independent decisions and judgments, and in particular: – refuse to accept unreasonable benefits which could have a negative impact on the independence of his or her opinions and judgments; – raise explicit objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest of the company.
8	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related entities.

No	Rule	YES / NO	Comment of Fortuna
Best Practice for Management Boards of Listed Companies			
1	A company should operate a corporate website and publish:		
	1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies;	YES	
	2) professional CVs of the members of its governing bodies;	YES	
	3) current and periodic reports;	YES	
	4) the date and place of a General Meeting, its agenda and draft resolutions together with their legal basis as well as other available materials related to the company's General Meetings, at least 14 days before the set date of the General Meeting;	YES	
	5) where members of the company's governing body are elected by the General Meeting – the basis for proposed candidates for the company's Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution;	YES	
	6) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the work of the Supervisory Board and of the internal control system and the significant risk management system submitted by the Supervisory Board;	YES	
	7) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions;	YES	
	8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds;	YES	
	9) information about breaks in a General Meeting and the grounds for those breaks;	YES	
	10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions;	YES	
	11) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting;	YES	
	12) where the company has introduced an employee incentive scheme based on shares or similar instruments – information about the projected cost to be incurred by the company from its introduction;	YES	
	13) a report on compliance with the corporate governance rules contained in this document.	YES	
2	A company should publish its website in English, at least to the extent described in section II.1.	YES	

No	Rule	YES / NO	Comment of Fortuna
3	Before a company executes a significant agreement with a related entity, its Management Board shall request the approval of the transaction/agreement by the Supervisory Board. This condition does not apply to typical transactions made on market terms within the operating business by the company with a subsidiary where the company holds a majority stake.	YES	
4	A member of the Management Board should provide notification of any conflicts of interest which have arisen or may arise to the Management Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	YES	
5	Draft resolutions of a General Meeting should have grounds attached, with the exception of resolutions on points of order and typical resolutions adopted in the course of an Ordinary General Meeting. In view of the foregoing, the Management Board should present grounds or request the person motioning for the inclusion of an issue on the agenda of a General Meeting to provide grounds.	YES	
6	A General Meeting should be attended by members of the Management Board who can answer questions submitted at the General Meeting.	YES	
7	A company shall set the place and date of a General Meeting so as to enable the participation of the highest possible number of shareholders.	YES	
Best Practices of Supervisory Boards			
1	In addition to its responsibilities laid down in legal provisions the Supervisory Board should: 1) once a year prepare and present to the Ordinary General Meeting a brief assessment of the company's standing including an evaluation of the internal control system and the significant risk management system; 2) once a year prepare and present to the Ordinary General Meeting an evaluation of its work; 3) review and present opinions on issues subject to resolutions of the General Meeting.	YES	
2	A member of the Supervisory Board should submit to the company's Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.	YES	
3	A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.	YES	
4	A member of the Supervisory Board should give notification of any conflicts of interest which have arisen or may arise to the Supervisory Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	NO	The Company acknowledges that members of the Supervisory Board related to Penta Investments Limited and AIFELMONA HOLDINGS LIMITED may be conflicted from time to time. To the extent possible, the Company shall apply these principles regarding conflict of interest as set forth in the Code, unless the participation of conflicted Supervisory Board members is deemed crucial for the decision-making process of the Company. If such a situation occurs, the Company shall provide for proper disclosures as set forth in best practice provisions II.3.4 or II.6.3.
5	A member of the Supervisory Board should not resign from his function if this action could have a negative impact on the Supervisory Board's capacity to act, including the adoption of resolutions by the Supervisory Board.	YES	
6	At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.	NO	Currently, there is only one independent member on the Supervisory Board. However, the Company does not exclude that in the future the number of independent members will increase further due to a new shareholder decision.
7	The Supervisory Board should at least establish an audit committee. The committee should include at least one member independent of the company and entities with significant connections to the company, who has qualifications in accounting and finance. In companies where the Supervisory Board consists of the minimum number of members required by law, the tasks of the committee may be performed by the Supervisory Board.	YES	
8	Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors should apply to the tasks and the operation of the committees of the Supervisory Board.	YES	
9	Execution by the company of an agreement/transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.	YES	

No	Rule	YES / NO	Comment of Fortuna
Best Practices of Shareholders			
1	Presence of representatives of the media should be allowed at General Meetings.	YES	
2	The rules of General Meetings should not restrict the participation of shareholders in General Meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next General Meeting.	YES	
3	Any shareholder who motions for the inclusion of an issue on the agenda of the General Meeting, including a motion to take an issue off the agenda, should provide grounds enabling an informed decision on the resolution.	YES	
4	A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting it or obligate the competent body to set it before the date of subscription rights within a timeframe enabling an investment decision.	YES	
5	Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events.	YES	
6	The date of setting the right to a dividend and the date of the dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between these dates requires detailed grounds.	YES	
7	A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment must take place before the date of setting the right to a dividend.	YES	
8	The General Meeting or the Supervisory Board should ensure that the company authorized to audit financial statements changes at least once every seven financial years.	YES	

Management Statement

The Company's members of the Management Board hereby declare in accordance with Financial Supervision Act Section 5:25c that, to the best of their knowledge:

- the financial statements for the financial year 2011 included in this Annual Report give a true and fair view of the assets, liabilities, financial position, and profit and loss of the Company and its consolidated entities;
- the Directors' Report gives a true and fair view of the company and its related entities whose financial information has been consolidated in the financial statements as of the balance sheet date 31 December 2011 and the state of affairs during the financial year 2011; and
- the Annual Report describes the material risks that the Company faces.

8.5 Supervisory Board Report

The Supervisory Board has reviewed the Annual Report of Fortuna Entertainment Group N.V. ("FEG" or "the Company") for the financial year 2011, as prepared by the Management Board.

General

The Supervisory Board supervises and advises the Management Board in performing its management tasks and setting FEG's strategy.

The Company has a two-tier board structure with one independent, non-executive member serving on the Supervisory Board. Currently, there is only one independent member in the Supervisory Board. However, the Company does not exclude that the number of independent members will increase further due to a new shareholder decision. It is rather unlikely that the recommendation that the majority of Supervisory Board members should be independent will be complied with as long as Penta Investments Limited or one of its subsidiaries is entitled to a majority of votes.

The Company acknowledges that members of the Supervisory Board related to Penta Investments Limited or one of its subsidiaries may be conflicted from time to time. To the extent possible, the Company shall apply the principles regarding conflict of interest as set forth in the Code, unless the participation of conflicted Supervisory Board members is deemed crucial for the decision-making process of the Company. If such a situation occurs, the Company shall provide for proper disclosures as set forth in best practice provisions II.3.4 or II.6.3.

The Supervisory Board, acting in the interests of FEG, its business and shareholders, supervises and advises the Management Board. Major management decisions, such as FEG's strategy, major investments and budget, require the approval of the Supervisory Board. The Supervisory Board also supervises the structure and management of systems, including the internal control and risk management systems, and the financial reporting process. The Supervisory Board selects and appoints new Management Board members, prepares the remuneration policy for the Management Board, and decides on the remuneration for the individual members of the Management Board. In addition, the Supervisory Board is the body that nominates new Supervisory Board candidates for appointment to the Annual General Meeting of Shareholders ("AGM"), and submits proposals for the remuneration of the Supervisory Board members.

The Supervisory Board closely follows the developments in the area of corporate governance and the application of the relevant corporate governance rules within the Company. In 2011, the Supervisory Board adopted an internal corporate governance rule in order to comply to the extent possible with the Dutch Corporate Governance Code. For a more detailed description on corporate governance, please refer to Corporate Governance, Chapter 8 of the Annual Report.

Meetings and activities of the Supervisory Board

The Supervisory Board held three meetings in 2011. Supervisory Board members attended all the meetings held in 2011, with the exception of one member who was absent from one meeting. Members of the Management Board attended the two meetings of the Supervisory Board, and one meeting was held without the presence of the Management Board members. Also, the Supervisory Board audit committee regularly meets without the members of the Management Board.

During the various meetings, the Supervisory Board discussed FEG's strategy, expansion plans, financial situation, business risks, investor relations, budget and corporate targets, among other matters. In addition to the scheduled meetings and conference calls, members of the Supervisory Board interacted intensively with the Management Board, as well as with its individual members, through one-on-one meetings, telephone calls and regular reports. Also, several informal meetings and telephone calls took place among Supervisory Board members for consultations with each other with respect to various topics.

In 2011, the Supervisory Board spent a considerable period of time discussing FEG's corporate and market strategy. There were also several discussions revolved around the financial and economic downturn in the second half of 2011 and the possible consequences thereof for FEG and its market and financial performance.

As is common practice each year, an evaluation was performed in 2011 with respect to the functioning of the Supervisory Board, its committee, and individual members. Several suggestions resulting from that evaluation were implemented, such as more in-depth and more extensive discussions on important topics for FEG and, as a result thereof, extended Supervisory Board meetings.

Changes in the Composition of the Supervisory Board

Jozef Janov served as Chairman of the Supervisory Board of FEG from 1 January 2011 till 31 December 2011 and his office term will also expire at the AGM to be held in 2014. Václav Brož and Michal Horáček served as Members of the Supervisory Board of FEG from 1 January 2011 till 31 December 2011 and their office term will also expire at the AGM to be held in 2014. The General Meeting held on 25 May 2011 took knowledge of the resignation of Martin Kúšik as a member of the Supervisory Board as of 24 May 2011 and appointed Marek Rendek as a new member to the Supervisory Board for a period of four (4) years in accordance with the articles of association of the Company. Marek Rendek's appointment was effective as of 25 May 2011.

For further details on the activities and responsibilities of the Supervisory Board, see the Corporate Governance Chapter 8 of this Annual Report.

Supervisory Board Committee

While retaining overall responsibility, the Supervisory Board assigns certain of its tasks to its audit committee. Members of this committee are appointed from among the Supervisory Board members.

The Company decided to establish only an audit committee. Since the remuneration and appointment of current directors and key executives is typical for private-owned companies, the establishment of two additional committees was deemed pointless before the IPO. In the future, the Supervisory Board may decide to establish additional committees.

Decisions and recommendations of the Audit Committee meetings are reviewed in plenary meetings of the Supervisory Board. In general, the Audit Committee evaluates its composition and functioning annually. The annual evaluations ensure a continuous focus on the quality of the activities of the committee, its composition and its functioning.

For a further description of the activities and responsibilities of the Supervisory Board audit ci, refer to Corporate Governance, Chapter 8 of this report.

Audit Committee

The current members of FEG's Audit Committee are Michal Horáček and Jozef Janov. Jozef Janov, Chairman of the Supervisory Board, currently acts as Chairman of the Audit Committee. The Company believes that it is in the best interest of the Company and FEG to maintain Jozef Janov as Chairman of the Audit Committee due to his extensive financial knowledge of the Group. The Company believes that he now meets the description of a financial expert as referred to in the Dutch Corporate Governance Code and the Dutch Act on the Supervision of Audit Organizations.

In 2011, the Audit Committee met twice for the purpose of the discussion of the annual and semi-annual financial results. External auditors of the Company participated in the meetings.

The Audit Committee focuses strongly on the review of FEG's interim (and annual) results and announcements. It also continuously monitors the activities of FEG's internal controls and risk management systems, including the internal controls over financial reporting. Other activities of the Audit Committee were: discussion and approval of the internal and external audit plan and related external audit fees; review of i) the audit and non-audit fees paid to the Company's external auditor; ii) the audit activities of the Company's internal and external auditor; and iii) the external auditor's letter.

Remuneration of the Supervisory Board

The General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board. The AGM held in 2011 approved the annual remuneration of each member of the Supervisory Board – Jozef Janov, Václav Brož, Michal Horáček and Martin Kúšik. The 2011 remuneration amounts are in accordance with the respective service agreements of the relevant members of the Supervisory Board. Marek Rendek shall not be entitled to any remuneration other than for expenses. The Supervisory Board remuneration is not dependent on the financial results of the Company. No member of the Supervisory Board personally maintains a business relationship with the Company other than as a member of the Supervisory Board apart from the relationship with Penta Investments Limited and its subsidiaries as described above in this report.

As at 31 December 2011, Marek Rendek held 5,253 shares in the Company constituting 5,253 voting rights at the AGM. None of the other members of the Supervisory Board owns shares or options on shares of the Company.

The Company has not granted any loans to, nor has it granted any guarantees in favor of, any of the members of the Supervisory Board.

Composition of the Management Board

As of 31 December 2011, the Management Board consisted of four members. Jiří Bunda resigned from his positions as CEO and Chairman of the Management Board effective as of 31 December 2011.

For further details and a biography of the members of the Management Board, see Chapter 8 of the Annual Report.

Remuneration of the Management Board

General

The Supervisory Board reviews and proposes the general compensation and benefit programs for the Management Board, as well as the remuneration for the individual members of the Management Board.

Amount and Composition

The current compensation and benefits levels are benchmarked against relevant companies. External compensation survey data and, where necessary, external personnel and remuneration consultants are used to benchmark our remuneration levels and structures.

The Supervisory Board further evaluates the performance of members of the Management Board in view of these goals and objectives, and makes recommendations on the compensation levels of the members of the Management Board based on this evaluation.

Outline 2011 remuneration report

The outline of the remuneration report of the Supervisory Board for the financial year 2011 concerning the remuneration policy of the Company is as follows:

Members of the Management Board received a fixed annual fee for the performance of their duties which is not part of any incentive or performance-based remuneration. In addition to the annual fixed fee, Mr. Jiří Bunda was entitled to a) a basic salary and benefits, b) performance-based remuneration and c) short-term stock options, based on his simultaneous position of CEO of the Company. The remuneration principles for Jiří Bunda were in line with the adopted remuneration principles for the Senior Management.

The remuneration of the members of the Management Board and Senior Management is described in Section 8.3 of the Annual Report. The remuneration of the Management Board in the year 2011 was in accordance with the Remuneration Policy adopted by the General Meeting of Shareholders.

Gratitude to FEG employees

The Supervisory Board would like to thank and recognize all FEG employees who have been able to achieve so much this past, very challenging year, with many new projects underway against a backdrop that saw a global economic downturn in the second half of the year. The Supervisory Board wishes to express its gratitude to the members of the Management Board and all FEG employees for their dedication and contributions to the results in 2011.

8.6 Risk Factors

The Company's business, results of operations and financial condition may be adversely affected by the following risks:

8.6.1 Risks Relating to the Betting and Gaming Industry

General Market Conditions

Changes and developments in economic, regulatory, administrative or other policies in the countries in which the Group operates, over which the Group has no control, could significantly affect the Group's business, prospects, financial conditions and results of operations in a manner that could not be predicted.

The Group's results are dependent on general economic conditions over which it has no control. General economic conditions such as employment rates and disposable income in the countries in which the Group operates can have an impact on its revenues. Accordingly, there can be no assurance that adverse general economic conditions in those countries in which the Group operates will not have adverse effects on the Group's business, financial condition, results of operations or prospects.

The number of the Group's customers is in turn directly related to the reputation of betting and gaming and the general public's perception of betting and gaming in the countries in which the Group operates. Public sentiment towards the betting and gaming industry can vary considerably. While the Group is attempting to improve the image of betting and gaming in its core markets, it is often labelled as a less socially desirable type of entertainment. Peaks in anti-betting and anti-gaming sentiment may occur from time to time, causing significant damage to the betting and gaming industry as a whole. Adverse changes in the perception of the betting and gaming industry by the general public may lead to a decrease in demand for betting and gaming services or increased regulatory restrictions which, in turn, may have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Demand for betting and gaming products is somewhat difficult to predict and may fluctuate over time. While it is possible to draw certain parallels between the macro-economic situation, the amount of disposable income and the amount of money that an average household spends on entertainment in general, the correlation between overall leisure spending and spending on betting and gaming appears to be far from linear. Demand for betting and gaming services may be affected by public opinion of the betting and gaming industry, negative or positive publicity surrounding the betting and gaming industry and other volatile factors. Therefore, the revenue of the Group may be adversely affected by temporary or permanent, sudden or gradual fluctuations in the demand for the Group's products which cannot be explained by the Group's operating performance or the condition of the economy in general.

Changes in the Regulatory Environment

The Group operates in various jurisdictions in sectors that are subject to state and/or municipal regulation and supervision. The regulations are complex and the legal framework does not always reflect technological progress. Since the Group offers some of its products online it is exposed to the risk that certain jurisdictions, where the Group's customers are located or from which its advertisements may be accessed via the Internet, may have conflicting laws or interpretations of such laws with regard to the legality or appropriate regulatory compliance of the Group's activities. In addition, the Group may try to offer its products in EU countries where the legal framework may contravene the free movement of services and impose limitations making the offering of such products impossible or economically unreasonable. In addition, different legal requirements in particular jurisdictions sometimes make it difficult to implement unified offers or to benefit fully from the synergy effect.

Another aspect of the regulatory issue is the uncertainty embedded in operations in highly regulated sectors. Some crucial matters are not directly regulated and depend on the discretion of regulators or interpretations that could be changed at any moment. Besides, the legal framework is currently under review in many European countries, resulting in various amendments and proposals for amendments. New legislation may be unfavourable to the operations of the Group or may require necessary adjustments to the operations. The Group Companies may be unable to implement new regulations in the prescribed period or at all. Consequently, the Group's operations in particular countries may change. An inability to use common solutions or implement common strategy may lead to additional expenses. Moreover, since the Group operates in a highly regulated market, the relationships with local regulators are very important to the business.

Changes in Taxation of Betting Services and Other Products

The Group is subject to taxation and/or levies in each of the countries in which it operates. The taxation and levies imposed upon the Group have changed over time. In the past certain governments considered that the sports betting and gaming sector was a potential source of additional taxation or other income. As the recent global economic crisis has led to a decrease in revenues from taxes in the countries in which the Group operates, some or all of those countries may consider increasing taxes on, or imposing new taxes on, services and products offered by the Group. For example, in Poland from 1 June 2010 the tax imposed on the total amount of money paid for bets increased from 10% to 12%. In Slovakia, the withholding tax of fixed-odds betting was increased from 5% to 5.5%, effective September 1, 2011. In 2011, the Czech parliament approved amendments to the Czech Gambling Act No. 300/2011 Coll. Effective January 1, 2012, the proceeds used for the benefit of the public as described in the previous paragraph will be replaced by a unified 20% withholding tax on Gross Win and 19% corporate income tax.

Any increase of taxation or the imposition of new taxes may decrease the amount of money customers want to spend on the Group's products. It may also lead to increased competition from online betting and gaming organizers that do not comply with local regulations and therefore will not be affected by changes in taxation. Consequently, such changes may have a material adverse impact on the Group's revenues and financial results.

Dependence on Licences

The Group conducts activities that are highly regulated. Licences or permissions are required to organize sports betting or to provide gaming products. Regulations in each of the countries in which the Group operates stipulate, among other things, various conditions concerning services organization, marketing, employees, and premises in which products are sold. Furthermore, the introduction of new products may result in a necessity to obtain new licences or to widen the scope of current licences and to make respective adjustments to conducted operations. The Group makes all reasonable efforts to comply with the terms and conditions of its licences and to renew licences that are due to expire. Any failure to comply with any applicable regulations or the terms and conditions of its licences, or any unfavourable change of law, may lead to the Group losing one or more of its licences or to an inability to renew its licences. In addition, the Group's operating companies may be unable to fulfil all of the requirements, terms and conditions that are necessary to obtain licences or to widen the scope of licences for new products. The loss of licences or a failure to obtain new licences may have a material adverse effect on the business of the Group, its financial results and prospects.

Restrictions on Marketing & Advertisement

Extensive restrictions apply to the marketing of betting and gaming services in some countries in which the Group operates. In those countries where such restrictions apply, the Group is forced to limit its marketing activities according to the relevant applicable laws. Such restrictions may have the effect of reducing the Group's potential to attract new customers, launch new products, implement a common marketing strategy or expand its market share in affected markets, and may lead to the loss of licences. In addition, the Group's advertisements may be accessed via the Internet by customers in countries where such activities may be illegal and the Group may face criminal or civil proceedings as a result.

Crime, Fraud & Security

Like many operators in the betting and gaming industry, the Group faces challenges caused by crime and fraud in the countries in which it conducts its business. The betting and gaming industry is subject to various pressures as a result of criminal activity, including organized crime, fraud, robbery, petty crime and theft. As the Group expands its operations, both in the markets in which it currently operates as well as in new markets, the Group expects criminal activity to continue to present certain challenges, especially in newly entered countries.

The continued activities of organized or other crime, fraud, new criminal challenges or activity to which the Group is not accustomed, or claims that the Group may have been involved in official corruption, may, in the future, bring negative publicity or disrupt the Group's ability to conduct its business effectively, which could therefore materially adversely affect the Group's business, financial condition, results of operations or prospects.

The integrity and security of betting and gaming operations are significant factors in attracting betting and gaming customers and in dealing with state authorities. Notwithstanding the Group's attempts to strengthen the integrity and security of its betting and gaming operations by improving its compliance functions and anti-money laundering procedures and its corporate governance policies and procedures, an allegation or a finding of illegal or improper conduct on the Group's part, or on the part of one or more of the Group's employees, or an actual or alleged system security defect or failure, could materially adversely affect the Group's business, financial condition, results of operations or prospects.

Risk Management Systems

The success of the Group depends on its risk management system. The internal risk management and control systems provide a reasonable assurance that the financial information does not contain any material misstatements and that the risk management and control systems functioned properly in the year ending 31 December 2011.

As part of the Group's risk management system, the Group compiles odds in order to assure their competitiveness and secure the Group's profit and monitors the bets proposed by customers to avoid any material exposures towards a particular sports event or to eliminate suspicious bets. In addition, the Group monitors the output of particular sports events and the payout of prizes. The risk management is based on experienced employees of the bookmaking department with the proper knowledge, experience and expertise and supported by tailored software. Any failure in the Group's risk management system could materially adversely affect the Group's business, financial condition, results of operations or prospects.

Single Event Losses and Sporting Schedules

In the long term, the Group's Gross Win percentage has historically remained fairly constant. In the short term there is less certainty of generating a positive Gross Win and the Group has, from time to time, experienced significant losses with respect to individual events or betting outcomes. Although the Group has systems and controls in place which seek to reduce the risk of daily losses occurring on a Gross Win basis, there can be no assurance that these systems and controls will be effective in reducing the Group's exposure to this risk. The effect of future fluctuations and single event losses could have a material adverse effect on the Group's cash flows and therefore a material adverse effect on its business, financial condition and results of operations.

Due to the fact that the Group accepts bets related to sports events, its business and financial result are partially related to schedules in sports events. Therefore factors such as weather conditions, terrorist acts, wars and outbreaks of pestilence and infectious diseases, which may result in cancellations or changes in the planned schedules of sports events, may adversely impact the Group's business, financial condition and results of operations.

Competition

The Group faces competition from other online and offline betting operators in the countries in which it operates, as well as from suppliers of other gaming products. The Group's competitors in the Group's most important markets comprise a relatively small number of large national operators and a relatively large number of online betting companies, each competing for the same customers. Moreover, the Group may face difficulties in competing with some betting and gaming organizers that offer their products without local licences since these entities are usually subject to lower taxation than the Group Companies in the countries where they have their registered seat and do not pay taxes in countries in which the Group operates locally.

In Slovakia, Poland and the Czech Republic, a failure by the relevant governmental authorities to implement the level of regulation necessary to enforce prohibitions on offshore betting and gaming could affect the success of the Group's operations in those jurisdictions. There can be no assurance that competition from new or existing competitors who provide services on onshore and offshore bases in countries in which the Group operates will not have a material adverse effect on the Group's operating results. In addition, there can be no assurance that any future development or investment by the Group will not be matched or surpassed by its competitors.

Key Personnel

The Group's success depends to a significant extent upon the contributions of a limited number of the Group's key senior management and personnel, especially bookmakers and local managers. There can be no certainty that the Group will be able to retain its key personnel. The loss (whether temporary or permanent) of the services of any director, member of the senior management team or other key personnel such as bookmakers, either at the FEG level or within a local management team, could have a material adverse effect on the business, financial condition or results of operations of the Group.

Acquisitions

The Group may consider growing through acquisitions in the near future. The Group's ability to realize the expected benefits from future acquisitions will depend, in large part, on its ability to integrate new operations with existing operations in a timely and effective manner and to manage a greater number of portfolio assets. In addition, the Group's potential acquisition plans involve numerous risks, including the following: the Group's acquisitions may not be profitable or generate the anticipated cash flows, the Group may fail to expand its corporate infrastructure to facilitate the integration of its operations with those of the acquired assets, the Group may face difficulties entering markets and geographical areas where it has limited or no experience, the Group may have potential difficulties in integrating its operations and systems with those of acquired companies, the Group may face a possible anti-monopoly review by relevant competition authorities that could result in such authorities seeking to prohibit or unwind its acquisition of new businesses, and the failure of the Group's acquisition strategy could possibly hamper its continued growth and profitability.

Failure to Introduce New Innovative Products and Services

Sports betting is the main product offered by the Group. In order to attract and retain customers, the Group regularly introduces new betting opportunities for its customers. If the Group fails to roll out the lottery according to plan, this may have a material adverse impact on the Group's financial standing and prospects. Moreover, in order to widen the range of products that it offers, the Group wants to introduce virtual horseracing and other gaming products. The introduction of particular products requires additional spending and marketing efforts. However, there is no guarantee that new products will meet customers' expectations. Therefore, the growth of the Group's revenues may not be sustained or may be lower than expected, which may adversely affect the Group's financial standing and the valuation of its shares.

Although some of the Group's operating companies have successfully introduced online services parallel to their offline operations in Slovakia and the Czech Republic, the outlets Group obtained a licence for online operation in Poland in January 2012. Although the Group may use its Czech and Slovak experience, the roll-out of online services in Poland may encounter some difficulties, especially in the fields of marketing, risk management and ongoing management, resulting from traditional models of operations. Consequently, the Group's financial results and prospects may be adversely affected.

8.6.2 Financial Risks

The Group's results of operations are directly affected by the general financial risks related to conducting business such as credit risk, liquidity risk and interest rate risk. The Group has introduced respective policies to limit these risks and analyses the sensitivity to particular factors of the Group's financial standing. The Group also tries to limit its exposure to such risks inter alia by prepayments made by customers, the provision of services to clients with an appropriate creditworthy history, hedging transactions related to interest rates and the rational management of liquidity. There can be no assurance that the Group's financial risk management will be appropriate or that the procedures in place will limit the influence of particular factors on the Group's financial standing. Any failure with respect to financial risk management or the inappropriateness of procedures in place may adversely impact the Group's business, financial condition and results of operations.

In addition, the Group may be unable to control its costs for various reasons, such as currency rates, inflation and other factors beyond the Group's control. Any failure in securing the financing of capital spending or in cost control may adversely impact the Group's financial condition business and results of operations.

Currency Fluctuations

The Group's operating entities use the currency of the country in which they are domiciled as their functional currency, as the Group considers that this best reflects the economic substance of the underlying events and circumstances relating to that entity. The Group reports its financial results in euro. The Group also has expenses, assets and liabilities denominated in currencies other than euro due to its international operations, in particular, the Czech koruna and Polish zloty. The Group does not hedge the risk of operating companies' profit translations. Fluctuations in the exchange rates of these foreign currencies could have an impact on the Group's results.

Increases and decreases in the value of the euro versus other currencies could affect the Group's reported results of operations and the reported value of its assets and liabilities in its statement of financial position even if its results or the value of those assets and liabilities has not changed in their original currency. These translations could significantly affect the comparability of the Group's results between financial periods and/or result in significant changes to the carrying value of its assets, liabilities and shareholders' equity and its ability to pay dividends in the future.

Pledge in Favour of Česká spořitelna, a.s.

Fortuna SK, Fortuna SazKan and Fortuna GAME have entered into three financing agreements with Česká spořitelna, a.s. Upon the occurrence of an event of default, certain actions can be taken by Česká spořitelna, a.s. on the basis of the financing agreements, including an acceleration of the outstanding loans and foreclosure of security. In accordance with Share Pledge Agreements (concluded in connection with Loan Facility Agreements between Fortuna SazKan, Fortuna GAME, Fortuna SK, and Česká spořitelna, a.s.), Česká spořitelna, a.s. may foreclose on the pledged shares, as a result of which Fortuna may cease to own Fortuna SazKan, Fortuna GAME, Fortuna SK, Riverhill and Alicela, which may result in a permanent or temporary inability of the Group to conduct business in the Czech Republic and/or the Slovak Republic.

The combined trademark "Fortuna Sazkova Kancelar" registered in the Czech Republic with the Czech Industrial Property Office is pledged in favour of Česká spořitelna, a.s. to secure its receivables from the Loan Facility Agreements with Fortuna SazKan and Fortuna GAME. If Česká spořitelna, a.s. forecloses on the aforementioned trademark further to a default event, Fortuna SazKan and Fortuna GAME may cease to own such trademark and may not be able to use such trademark in their operations, which may have a material adverse effect on the business of the Group.

Significant Influence of the Majority Shareholder

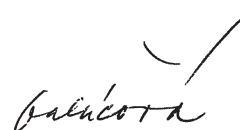
With its 67.26% of FEG's outstanding shares, Penta Investments Limited, through its wholly owned subsidiary AIFELMONA HOLDINGS LIMITED, will be in a position to exert significant influence over the outcome of matters submitted to a vote of the FEG's shareholders, including matters such as the approval of the annual financial statements, declarations of dividends, the election and removal of the members of the Supervisory Board and the Management Board, capital increases and amendments to the Articles of Association.

Amsterdam, 5 April 2012



Wilfred Thomas Walsh

Vice Chairman of the Management Board
of Fortuna Entertainment Group N.V.



Janka Galáčová

Member of the Management Board
of Fortuna Entertainment Group N.V.



Richard van Bruchem

Member of the Management Board
of Fortuna Entertainment Group N.V.



Jozef Janov

Chairman of the Supervisory Board
of Fortuna Entertainment Group N.V.



Marek Rendek

Member of the Supervisory Board
of Fortuna Entertainment Group N.V.



Václav Brož

Member of the Supervisory Board
of Fortuna Entertainment Group N.V.



Michal Horáček

Member of the Supervisory Board
of Fortuna Entertainment Group N.V.

9. Independent Auditor's Report

To: The shareholders of Fortuna Entertainment Group N.V.

Report on the financial statements

We have audited the accompanying financial statements for the year ended 31 December 2011 of Fortuna Entertainment Group N.V., Amsterdam, which comprise the consolidated and company statement of financial position as at 31 December 2011, the consolidated and company statements of income, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the financial statements

In our opinion, the financial statements give a true and fair view of the financial position of Fortuna Entertainment Group N.V. as at 31 December 2011 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, 5 April 2012

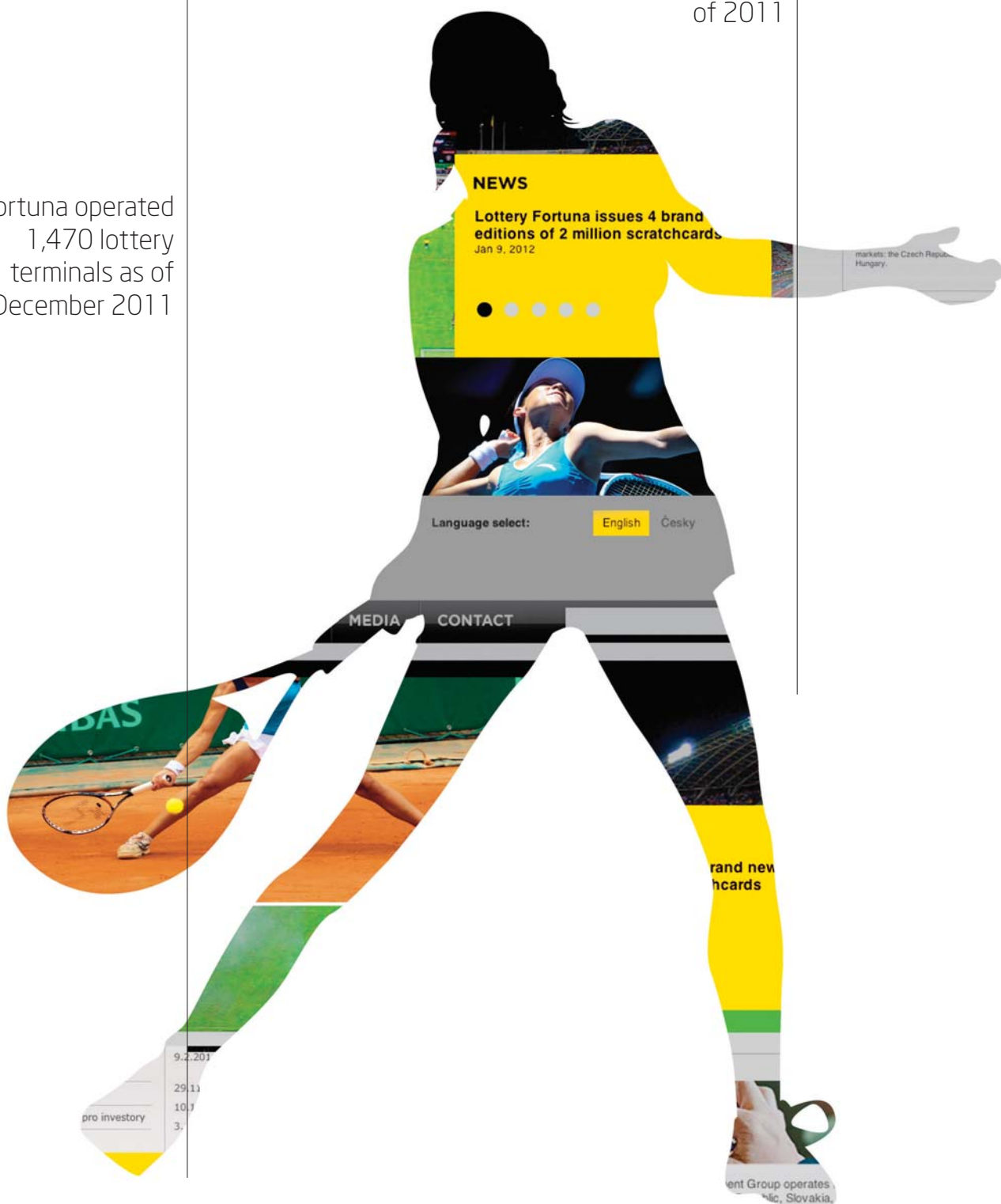
Ernst & Young Accountants LLP

Signed by S.D.J. Overbeek-Goeseije

10%

was the market
share of Fortuna in
the Czech lottery
market at the end
of 2011

Fortuna operated
1,470 lottery
terminals as of
31 December 2011



10. CONSOLIDATED FINANCIAL STATEMENTS OF FORTUNA ENTERTAINMENT GROUP N.V.

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED
BY THE EUROPEAN UNION
AS AT 31 DECEMBER 2011

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Consolidated Statement of Financial Position as at 31 December 2011

€ 000	Notes	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Goodwill	15	49,339	50,796
Intangible assets	16	7,789	7,953
Property, plant and equipment	17	5,976	4,919
Deferred tax assets	12	699	272
Restricted cash	20	6,913	3,743
Other non-current assets	19	933	628
Total non-current assets		71,649	68,311
Current assets			
Current receivables	18	2,613	1,007
Income tax receivable		112	239
Other current assets	19	1,948	912
Cash and cash equivalents	21	17,533	25,335
Total current assets		22,206	27,493
TOTAL ASSETS		93,855	95,804
EQUITY AND LIABILITIES			
Share capital	23	520	520
Share premium	23	25,942	25,942
Statutory reserve	23	3,502	3,004
Foreign currency translation reserve	23	(1,358)	1,647
Retained earnings		18,096	20,894
Total Equity		46,702	52,007
Non-current liabilities			
Provisions	26	524	53
Long-term bank loans	27	22,573	24,115
Deferred tax liabilities	12	5	5
Other non-current liabilities	30	-	29
Total non-current liabilities		23,102	24,202
Current liabilities			
Trade and other payables	29	15,650	12,223
Income tax payable		183	499
Provisions	26	488	208
Current portion of long-term bank loans	27	5,928	5,021
Derivatives	22	935	919
Other current liabilities		867	725
Total current liabilities		24,051	19,595
EQUITY AND LIABILITIES		93,855	95,804

Consolidated Statement of Income for the Year Ended 31 December 2011

€ 000	Notes	31 December 2011	31 December 2010
Amounts stated	6	409,344	385,477
Revenue		89,844	81,195
Governmental taxes and levies	6	(9,385)	(6,799)
Personnel expenses	7	(26,923)	(25,576)
Depreciation and amortisation	6	(3,132)	(2,630)
Other operating income	8	746	649
Other operating expenses	9	(34,319)	(24,386)
Operating profit		16,831	22,453
Finance income	10	2,636	2,230
Finance cost	10	(3,576)	(4,541)
Profit before tax from continuing operations		15,891	20,142
Income tax expense	12	(2,571)	(2,769)
Net profits for the year from continuing operations		13,320	17,373
Discontinued operations			
Loss after tax for the year from discontinued operations	13	-	(1,286)
Profit on disposal of discontinued operations		-	4,171
Net profits for the year from discontinued operations		-	2,885
Net profits for the year		13,320	20,258
Attributable to:			
Owners of the parent		13,320	20,258
€		2011	2010
Earnings per share	14		
Weighted average number of ordinary shares for basic and diluted earnings per share		52,000,000	50,350,685
Basic and diluted, profits for the year attributable to ordinary equity holders of the parent		0.256	0.402
Basic and diluted for continuing operations, profits for the year attributable to ordinary equity holders of the parent		0.256	0.345

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2011

€ 000		31 December 2011	31 December 2010
Profits for the year		13,320	20,258
Net loss on revaluation of cash flow hedges	11	(24)	(144)
Income tax	11	4	27
		(20)	(117)
Exchange differences on translation of foreign operations		(3,005)	1,323
Other comprehensive income for the year, net of tax		(3,025)	1,206
Total comprehensive income for the year, net of tax		10,295	21,464
Attributable to:			
Owners of the parent		10,295	21,464

Consolidated Statement of Cash Flows for the Year Ended 31 December 2011

€ 000	Notes	31 December 2011	31 December 2010
Cash flows from operating activities			
Profit before tax from continuing operations		15,891	20,142
Loss before tax from discontinued operations	13	-	(1,301)
Profit before tax		15,891	18,841
Adjustments for:			
Depreciation and amortisation	6	3,132	2,765
Changes in provisions		751	264
(Gain) / Loss on disposal of property, plant and equipment	8,9	(32)	30
Interest paid and received		1,401	1,331
Change in fair value of derivatives		3	8
Operating profit before working capital changes		21,146	23,239
(Increase) / Decrease in other current assets		(1,127)	(144)
(Increase) / Decrease in receivables		(2,328)	(138)
(Decrease) / Increase in payables and other liabilities		4,712	(3,655)
(Increase) / Decrease in restricted cash		(3,417)	-
Cash generated from operating activities		18,986	19,302
Corporate income tax paid		(3,221)	(2,701)
Net cash flows provided by / (used in) operating activities		15,765	16,601
Cash flows from investing activities			
Interest received		202	526
Related party loans receivable (granted)/repaid		-	28,257
Acquisition of a subsidiary, net of cash acquired		-	(320)
Derecognition / (Acquisition) of other financial assets		-	757
Repayment of liabilities for purchase of subsidiary		(117)	(13,957)
Proceeds / (Acquisition) of other financial assets		-	-
Purchase of buildings, equipment and intangible assets		(4,613)	(3,394)
Net outflow from sale of a subsidiary, net of cash disposed		-	(1,770)
Proceeds from sale of buildings and equipment		55	20
Net cash flows provided by / (used in) investing activities		(4,473)	10,119
Cash flows from financing activities			
Net proceeds from / (Repayments of) long term borrowings		(1,032)	5,127
Net proceeds from / (Repayments of) short-term borrowings		1,045	(16,485)
Related party loans received / (repaid)		-	197
Cash contribution by shareholder to acquire subsidiary companies		-	81,884
Payment to acquire subsidiary companies		-	(79,201)
Return of capital		-	(19,000)
Proceeds from IPO		-	8,386
Incurred transaction costs capitalized		-	(2,009)
Dividends paid	24	(15,600)	-
Interest paid		(1,603)	(1,857)
Net cash flows provided by / (used in) financing activities		(17,190)	(22,958)
Net effect of currency translation in cash		(1,904)	7
Net increase / (decrease) in cash and cash equivalents		(7,802)	3,769
Cash and cash equivalents at the beginning of the year		25,335	21,566
Cash and cash equivalents at the end of the year	21	17,533	25,335

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2011

€ 000	Notes	Share capital	Share premium	Statutory reserves	Retained earnings	Foreign exchange translation reserve	Total
1 January 2011		520	25,942	3,004	20,894	1,647	52,007
Profits for the year		-	-	-	13,320	-	13,320
Other comprehensive income		-	-	-	(20)	(3,005)	(3,025)
Total comprehensive income		-	-	-	13,300	(3,005)	(10,295)
Dividend 2010 paid-out to shareholders	24	-	-	-	(15,600)	-	(15,600)
Allocation of profit		-	-	498	(498)	-	-
31 December 2011		520	25,942	3,502	18,096	(1,358)	46,702

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2010

€ 000	Share capital	Share premium	Net assets attributable to combined entities' shareholder	Statutory reserves	Retained earnings	Foreign exchange translation reserve	Total
1 January 2010	45	21,779	16,611	2,144	(420)	324	40,483
Profits for the year	-	-	-	-	20,258	-	20,258
Other comprehensive income	-	-	-	-	(117)	1,323	1,206
Total comprehensive income	-	-	-	-	20,141	1,323	21,464
Capital paid in and funding for acquisitions	-	81,884	-	-	-	-	81,884
Return of capital to shareholder	-	(19,000)	-	-	-	-	(19,000)
Acquisition of FORTUNA SK, a.s., FORTUNA REAL, s.r.o. and FORTUNA zakłady bukmakerskie Sp. z o.o. accounted for using pooling of interest method	-	(64,623)	(16,611)	66	1,967	-	(79,201)
Allocation of profit	-	-	-	794	(794)	-	-
Increase share capital on 27 September 2010	455	(455)	-	-	-	-	-
Increase share capital on 28 October 2010	20	8,366	-	-	-	-	8,386
Capitalisation of IPO expenses	-	(2,009)	-	-	-	-	(2,009)
31 December 2010	520	25,942	-	3,004	20,894	1,647	52,007

Notes to the Consolidated Financial Statements as at 31 December 2011

1. CORPORATE INFORMATION

The consolidated financial statements for the year ended 31 December 2011 of Fortuna Entertainment Group N.V. ("FEGNV"), comprise the consolidated statements of financial position as at 31 December 2011 and 31 December 2010, the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 December 2011 and 31 December 2010, and a summary of significant accounting policies and other explanatory notes.

The consolidated financial statements of FEGNV for the year ended 31 December 2011 were authorized for issue in accordance with a resolution of the directors on 5 April 2012. The Annual General Meeting to approve the financial statements is expected to take place in May 2012.

FEGNV has its registered office at Strawinskylaan 809, Amsterdam, the Netherlands. 67.26% of the shares of the Company are held by AIFELMONA HOLDINGS LIMITED having its registered office at Kyriakou Matsi, 16, EAGLE HOUSE, 10th floor, 1082, Nicosia, Cyprus. The previous shareholder of 67.26% of the shares was Penta Investments Limited ("Penta") having its registered office at Agias Fylaxeos & Polygnostou, 212, C&I Center, 2nd floor, 3082 Limassol, Cyprus. On 29 November 2011 Penta contributed its block of shares of FEGNV to its direct subsidiary AIFELMONA HOLDINGS LIMITED. The remaining 32.74% of shares are publically traded at the Polish stock exchange in Warsaw and the Czech stock exchange in Prague.

Description of business

Fortuna Entertainment Group N.V. operates in the betting industry under local licences in Czech Republic, Slovakia and in Poland and via an online platform based in Malta targeting the market in Hungary and since May 2011 also Croatia. Sports betting is the key product of FEGNV with the most popular betting events being football, ice hockey and basketball. The odds are distributed to customers via retail chains in the Czech Republic, Slovakia and Poland and via online web sites in the Czech Republic, Slovakia and Hungary and since May 2011 also Croatia.

In May 2011 FORTUNA sázková kancelář a.s. started with commercial sale of scratch tickets and in July 2011 the company launched numerical lottery games in the territory of the Czech Republic.

FEGNV has the following members of Management and Supervisory Board as at 31 December 2011:

Management Board

Chairman:	Jiří Bunda *
Vice-chairman:	Wilfred Walsh
Member:	Richard van Bruchem
Member:	Janka Galáčová

* Jiří Bunda resigned from his position of the Chairman of the Management Board effective from 31 December 2011.

Supervisory Board

Chairman:	Jozef Janov
Member:	Marek Rendek
Member:	Václav Brož
Member:	Michal Horáček

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and in accordance with Title 9 of Book 2 Dutch Civil Code. IFRS as adopted by European Union comprise standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

FEGNV was incorporated on 4 November 2009 with the purpose to transfer all subsidiaries of Penta forming the betting business (the subsidiaries) to FEGNV with the intention of an initial public offering of Fortuna Entertainment Group N.V.'s shares on the main market of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange, "WSE") and Burza cenných papírů Praha, a.s (the Prague Stock Exchange, "PSE") in 2010. The transfer of the subsidiaries was completed on 12 May 2010 due to certain regulatory approvals being required to transfer FORTUNA zakłady bukmacherskie Sp. z o.o. The initial public offering of FEGNV's shares on the Warsaw and Prague Stock exchange got executed on 28 October 2010 and 27 October 2010, respectively.

The consolidated financial statements have been prepared on a historical cost basis unless disclosed otherwise.

The consolidated financial statements are presented in Euros and all values are rounded to the nearest thousand (€ 000), except when otherwise indicated.

2.1. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.

As stated in Note 2 'Basis of Preparation' FEGNV was incorporated by Penta Investments Limited, with the purpose to transfer all subsidiaries of Penta, forming the betting business, to FEGNV. The transfer of these entities was completed on May 12, 2010.

Transactions that occur between entities under common control are commonly referred to as 'common control transactions'. IFRS 3 Business Combinations (revised 2008) specifically scopes out common control transactions and is therefore not prescriptive as to what method should be used in business combinations between entities under common control. Accordingly, an entity may choose the pooling of interest or purchase method in accounting for business combinations involving entities under common control.

FEGNV selected the accounting policy under which the legal restructuring is accounted for using the pooling of interest method. The pooling of interest method consists in aggregating individual items of assets and liabilities and revenues and costs of the consolidated entities, after bringing their values to uniform measurement methods and after making appropriate eliminations. All intra-group balances and transactions are also excluded.

Entities externally acquired by the controlling shareholder during one of the periods presented form part of the consolidated financial statements as of the date they were under common control, and are accounted for using the purchase method and continue to be consolidated until the date control ceases to exist.

At the date of these consolidated financial statements, FEGNV is legal parent of legal entities operating in betting and lottery industry which are ultimately owned by Penta. The consolidated financial statements were prepared by FEGNV, as reporting entity, as at 31 December 2011 and include the following entities (together "Fortuna Group"):

Fortuna Entertainment Group N.V.
RIVERHILL a.s.
ALICELA a.s.
FORTUNA sázková kancelář a.s. *
FORTUNA GAME a.s.
FORTUNA RENT s.r.o.
FORTUNA sázky a.s.
FortunaWin Ltd.
FortunaWin Gaming Ltd.
FORTUNA SK, a.s.
FORTUNA REAL, s.r.o.
FORTUNA zakłady bukmacherskie Sp. z o.o.
FORTUNA software s.r.o.
ibet, s.r.o.

* Effective 4 January 2012, FORTUNA sázková kancelář a.s. changed its name to Fortuna Loterie a.s.

All entities are 100% owned by FEGNV, either directly or indirectly, except for Fortunawin Ltd., which is 99,99% owned by FEGNV.

In these consolidated financial statements, any common control business combinations are accounted for as described above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in preparing the consolidated financial statements for the years ended 31 December 2011 and 2010 are set out below.

3.1. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3.2. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost and those acquired as part of a business combination are recognised separately from goodwill if the fair value can be measured reliably on initial recognition. The costs relating to internally generated intangible assets, principally software costs, are capitalised if the criteria for recognition as assets are met. Other internally generated intangible assets are not capitalised and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Following initial recognition, intangible assets with finite useful lives are carried at cost less any accumulated amortisation and accumulated impairment losses. Where amortisation is charged on assets with finite lives, this expense is taken to the statement of income through the 'depreciation and amortisation' line item. Useful lives are reviewed on an annual basis

A summary of the policies applied to Fortuna Group's intangible assets is as follows:

The straight-line amortisation method is used.

	Useful lives
Software	3 years

Intangible assets with indefinite useful lives (brand names) are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Annual impairment tests are performed also for the intangible assets not yet in the use.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

3.3. Property, plant and equipment

Land is stated at cost less any impairment in value. Buildings, plant and equipment and other fixed assets are stated at cost less accumulated depreciation and any impairment in value. Assets not yet in use are carried at cost and not depreciated. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	Useful lives
Buildings	15 years
Plant and equipment	2–6 years
Cars	4–6 years

The buildings also include leasehold improvements.

Impairment is recognized when carrying amount of an item of property, plant, or equipment exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

3.4. Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date.

Leases, which transfer to Fortuna Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessee does not obtain substantially all the benefits and risks of ownership of the asset are classified as operating leases. Operating lease payments, other than contingent rentals, are recognised as an expense in the statement of income on a straight-line basis over the lease term.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

3.5. Recoverable amount of non-current assets

The carrying values of non-current assets with finite lives are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

For goodwill, and intangible assets that have indefinite useful lives, the recoverable amount is estimated at each balance sheet date.

The recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment losses are recognised in the statement of income in the depreciation line item. Assets and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

3.6. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short term deposits as defined above.

3.7. Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Fortuna Group determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss comprise derivative financial instruments. These are measured initially at fair value with transaction costs taken directly to the statement of income. Subsequently, the fair values are re-measured and gains or losses from changes therein are recognised in the statement of income.

Trade receivables are generally accounted for at amortised cost. Fortuna Group reviews indicators of impairment on an ongoing basis and where indicators exist, Fortuna Group makes an estimate of the assets' recoverable amounts.

3.8. Financial liabilities

Financial liabilities comprise interest bearing loans and borrowings and derivative financial instruments. On initial recognition, financial liabilities are measured at fair value less transaction costs where they are not categorised as financial liabilities at fair value through profit or loss. Except for derivative financial instruments, Fortuna Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs taken directly to the statement of income. Subsequently, the fair values are re-measured and gains and losses from changes therein are recognised in the statement of income.

3.9. Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when

- The rights to receive cash flows from the asset have expired;
- Fortuna Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) Fortuna Group has transferred substantially all the risks and rewards of the asset, or (b) Fortuna Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Fortuna Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Fortuna Group's continuing involvement in the asset. In that case, Fortuna Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Fortuna Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Fortuna Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

3.10. Derivative financial instruments and hedge accounting

Fortuna Group uses derivative financial instruments such as interest rate swaps, to hedge its risks associated with interest rate.

Derivative financial instruments are recognised initially at fair value and are subsequently re-measured at fair value. The gains or losses on re-measurement are taken to the statement of income except where the derivative is designated as a cash flow hedge or a net investment hedge. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivative financial instruments are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

Derivative financial instruments taken out as hedges are designated and documented as hedges on the date that the relevant derivative contract was committed to, as one of the following:

- a hedge of the fair value of an asset and liability (fair value hedge);
- a hedge of the income/cost of a highly probable forecast transaction or commitment (cash flow hedge);
- or a hedge of a net investment in a foreign entity (net investment hedge).

Fortuna is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situation.

In relation to fair value hedges that meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the statement of income. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the statement of income. As the hedged item is variable interest rate associated with bank loans, items recognized in the statement of income are included in finance cost as "interest on bank loans".

In relation to cash flow hedges that meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion is recognised in the statement of income. For all other cash flow hedges, the gains or losses that are recognised in other comprehensive income are transferred to the statement of income in the same period in which the hedged cash flow affects the statement of income. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in other comprehensive income until the forecasted transaction affects profit or loss.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the statement of income for the period. In relation to net investment hedges, the post-tax gains or losses on the translation at the spot exchange rate of the hedged instrument are recognised in other comprehensive income. The portion of the post-tax gains or losses on the hedging instrument that is determined to be an effective hedge is recognised through other comprehensive income and the ineffective portion is recognised in the statement of income. The interest element of the fair value of the hedged item is recognised in the statement of income.

For derivative financial instruments that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the statement of income for the year.

3.11. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

EIR amortisation is included in finance income in the statement of income. The losses arising from impairment are recognised in the statement of income in finance costs.

3.12. Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of income.

3.13. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.14. Provisions

Provisions are recognised when Fortuna Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

3.15. Foreign currency translation

The presentation currency of Fortuna Group is EUR ("€"). The functional currency of FEGNV is EUR, and of its subsidiaries Czech crowns ("CZK"), Polish zlotys ("PLN") and EUR. The functional currency of Croatian entity disposed in 2010 was Croatian Kunas ("HRK").

Transactions in foreign currencies are initially recorded in the functional currency at the foreign currency rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign currency rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

In the consolidated financial statements the assets and liabilities of the consolidated entities are translated into the presentation currency of Fortuna Group at the rate of exchange ruling at the balance sheet date with the statement of income items translated at the weighted average exchange rates for the period. The exchange differences arising on the transaction are taken directly to a separate component of equity recorded via other comprehensive income.

Goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation and translated at the closing rate.

3.16. Taxation

3.16.1. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Fortuna Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

According to the Czech tax legislation, all revenues and expenses connected with the betting business are not subject to CIT.

3.16.2. Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profits and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Fortuna Group intends to settle its current tax assets and liabilities on a net basis.

3.16.3. Taxes on betting

Czech Republic

According to Czech legislation, the Company is obliged to pay for publicly beneficial purposes 6% to 20% of the difference between amounts staked, including any manipulation fees and wins paid to the betters, administration fees, local fees and expenses of state supervision. The amount of tax is recognised in "Government taxes and levies".

Slovakia

According to Slovakian regulations, the Company is obliged to pay gaming tax of 5.5% of total amounts staked (prior 1 September 2011 the tax was 5%), of which 0.5% is paid to municipalities. Revenues are stated net of the amount of this tax.

Poland

According to Polish regulations the Company is obliged to pay gaming tax of 12% of amounts staked (prior 1 June 2010 the tax was 10%). The amount paid by customers is deducted by 12% and only the remaining 88% of ticket amounts is used to calculate the potential winning prize (the potential winning prize = 88% of ticket (paid) amount * betting rate). Revenues are stated net of the amount of this tax.

Croatia

According to Croatian regulations, a monthly fee of 5% of the amounts staked, including the manipulation fee, is charged to the operator. Revenues are stated net of the amount of this tax.

3.17. Employee benefit plan

Pension plan

In the normal course of business, the companies within Fortuna Group pay statutory social insurance on behalf of their employees in accordance with legal requirements of the respective countries. Fortuna Group does not operate any other pension plan or post retirement benefit plan, and, consequently, has no legal or constructive obligation in this respect.

Bonus plans

A liability for employee benefits in the form of bonus plans is recognised under provisions; the bonus is paid following the performance evaluation in the year concerned.

Liabilities for bonus plans are measured at the amounts expected to be paid when they are settled.

3.18. Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

3.19. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Fortuna Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

3.19.1. Fixed odds betting revenue

Amounts staked comprises of the gross takings received from customers in respect of the betting activities and does not represent Fortuna Group's revenue.

Revenue is recognized as the net win or loss on an event, net of tax. The amounts bet on an event are recognised as a liability until the outcome of the event is determined, at which time the revenue is accounted for. Open betting positions, which are accounted for as derivative financial instruments, are carried at fair value and gains and losses arising on these positions are recognised in revenue.

3.19.2. Customer loyalty programme

Fortuna Group operates a loyalty programme enabling customers to accumulate award credits for gaming spend. A portion of the gaming spend, equal to the fair value of the award credits earned is treated as deferred revenue. Revenue from the award credits is recognised when the award is redeemed. The credits expire at the end of the financial year and are not redeemable afterwards.

3.19.3. Interest income / expense

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts based on the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income / or expense is included in finance income / costs in the statement of income.

3.20. Segment Disclosure

For management purposes Fortuna Group is divided into operating segments based on geographical areas and revenue streams (sports betting or lottery). Fortuna Group follows criteria set by IFRS 8 Operating Segments to determine number and type of reportable segments. At the level of the accounting unit as a whole, Fortuna Group discloses information on revenues to external customers for major products and services respectively groups of similar products and services, and on non-current assets by geographical segment locations.

3.21. Contingencies

Contingent assets are not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognised in the consolidated financial statements unless they are acquired in a business combination. They are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote.

3.22. Share-based payment transaction

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for option (right) to acquire shares at exercise price. At the exercise date, the option holder is entitled to remuneration from the company which is calculated as the difference between the closing price of shares in the Prague Stock Exchange or in the Warsaw Stock Exchange at the exercise date, and the exercise price. The option holder may decide to acquire physical shares. In such a case, the company will purchase shares on behalf of the option holder and transfer them to the respective.

The share-based payment transactions do not affect the computation of diluted earnings per share as the company will purchase the existing shares and hence no new shares will be issued.

As the counterparty has the choice of whether the Company settles the transaction in cash or by equity instruments, the Company accounts for that transaction as a cash-settled share-based payment transaction.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are given in Note 28. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense (Note 7).

3.23. New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

IAS 24 Related Party Transactions (Amendment)

The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The group is not subject to minimum funding requirements. The amendment to the interpretation therefore had no effect on the financial position or performance of the Group.

Improvements to IFRSs (issued in May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group:

– IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 22 and 25.

- IAS 1 Presentation of Financial Statements: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in Note 11.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (The measurement options available for non-controlling interest)
- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements
- IFRIC 13 Customer Loyalty Programmes (Determining the fair value of award credits)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

3.24. Future accounting developments

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued are those that Fortuna Group reasonably expects to be applicable at a future date. Fortuna Group intends to adopt those standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group does not expect any impact on its financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group does not expect any impact on its financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group does not expect any impact on its financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. The completion of this project is expected over the course of 2012. The Group does not expect that adoption of the first phase of IFRS 9 will have any impact on its financial position or performance.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

The Group does not expect any impact on its financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The Group does not expect any impact on its financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The new standard affects presentation only and has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group does not expect any impact on its financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

4. USE OF ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgements

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying FEGNV's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Recognition of gross versus net revenues

FEGNV is subject to various governmental taxes and levies. The regulations differ significantly from one country to another. Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they should be excluded from revenue. The management makes its own judgment as to whether the entity is acting as principal or agent in collecting the tax based on various indicators as well as changing circumstances in each of the countries where FEGNV operates. Further details are given in Notes 3.17.3 and 6.

Estimates

The key assumptions concerning future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Indefinite life intangible assets and goodwill

Fortuna Group determines whether indefinite life intangible assets are impaired at least on an annual basis. This requires an estimate of an asset's recoverable amount which is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in Notes 3.3., 15 and 16.

Betting transactions

Betting transactions are measured at the fair value of the consideration received or paid. This is usually the nominal amount of the consideration; however in relation to unresolved bets the fair value is estimated in accordance with IAS 39 using valuation and probability techniques, taking into account the probability of the future win. Further details are given in Notes 3.20.1. and 6.

Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Notes 3.17. and 12.

Recoverable amount of receivables

Where there are indicators that any receivable is impaired at a balance sheet date, management makes an estimate of the asset's recoverable amount. Further details are given in Notes 3.8. and 18.

Provisions

Provisions take into account an expected expense, showing it as a liability on the balance sheet. Created provisions represent the best management estimate of future outflow of the economic benefits. Further details are given in Notes 3.15. and 26.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 28.

5. BUSINESS COMBINATIONS

Acquisitions in 2011

The Group did not acquire any business during the year 2011.

Acquisitions in 2010

FORTUNA software s.r.o.

NaviPro is a betting software used by FEGNV operating subsidiaries over the past five years. The software is unique and has been tailored the needs of a group. The software is used for organizing and managing the betting process, including the placement of bets, the administration of bets, rate management, and on-line and telephone betting.

In March 2010 FEGNV acquired the provider of NaviPro software. Decision on acquisition of the external provider emerged from high business risk perceived given the importance of the NaviPro software for continuity of the company's operations. The acquired company has been renamed to FORTUNA Software s.r.o.

The total purchase price was CZK 12 million (€ 471 thousands), out of which CZK 6 million (€ 236 thousands) being paid in equal portions to the sellers upon signature of the share purchase agreement and the remainder of the CZK 6 million being paid to the sellers in 25 monthly instalments of CZK 80 thousands (€ 3 thousands) starting March 2010.

At the acquisition date, total assets of the Company amounted to CZK 665 thousand (€ 26 thousand) and were largely represented by trade receivables from Fortuna Group.

At the acquisition date the carrying amounts and fair value of the separately identifiable assets and liabilities of NAVI PRO s.r.o. and goodwill on acquisition were as follows:

€ 000	Carrying amount	Fair value
Property, plant and equipment	2	2
Current receivables	30	30
Receivables from the group	(24)	(24)
Cash and cash equivalents	12	12
Income tax receivable	3	3
Trade and other payables	(21)	(21)
Net identifiable assets and liabilities	2	2
Share of net assets acquired		100%
Goodwill		445
Purchase consideration		447
Net cash outflow arising on acquisition:		
Receivables from the group		(24)
Total purchase consideration		(447)
Cash consideration paid		(471)
Cash and cash equivalents acquired		12
Net cash outflow		(459)

Fortuna software s.r.o. contributed € 12 thousand from the date of acquisition to 31 December 2010 to the net profit from continuing operation of the Group. If the combination had taken place at the beginning of that year, the profit for the year from continuing operations for the Group for 2010 would have been higher by € 9 thousand. As Fortuna software s.r.o. is not an operating company, it does not contribute to the revenues of the Group.

ibet, s.r.o.

In 2010 FEGNV founded ibet, s.r.o., which is a Czech limited liability company incorporated as a service organisation to FortunaWin Ltd and third party betting operators. The 100% owner of ibet, s.r.o. is Fortuna Entertainment Group N.V. The core activity of ibet is providing support in bookmaking, customer support, and HW/SW solutions.

FORTUNA zakłady bukmacherskie Sp. z o.o., FORTUNA SK, a.s. and FORTUNA REAL, s.r.o.

FORTUNA SK, a.s., with its subsidiary FORTUNA REAL, s.r.o., and FORTUNA zakłady bukmacherskie Sp. z o.o. were only acquired on 27 January 2010 and 12 May 2010, respectively. However the company prepared as at 31 December 2009 combined financial statements, where these entities were already included on a basis of application of the 'reporting entity' interpretation (for more details refer to Note 2.1). Those comparatives for the year 2010 comprise results of relevant entities for whole year 2010, as if the acquisitions were done at the beginning of the year. As these acquisitions were common control transactions and accounted for by applying the pooling of interest method.

6. SEGMENT INFORMATION

For management purposes, in 2010 Fortuna Group was organized into business units based on geographical areas, with the following four reportable operating segments being distinguished:

Czech Republic
Slovakia
Poland
Other countries

In the first half of 2011 FORTUNA sázková kancelář a.s. started with commercial sale of scratch tickets in the territory of the Czech Republic and in July 2011 also started numerical lottery games. The segment of the Czech Republic is divided into two operating segments being sports betting and lottery.

The parent company, FEGNV, does not report any significant results, assets and liabilities other than its interest in subsidiaries and equity and therefore does not qualify as a separate operating segment. The information of FEGNV and other immaterial locations is included in the "Other countries" column.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. The items included in transfer pricing comprise bookmaking services, general management services, software development services and cash deposit services which are primarily borne by Czech entities FORTUNA sázková kancelář a.s., FORTUNA GAME a.s. and FORTUNA software s.r.o.

The following tables present revenue and profit information regarding Fortuna Group's operating segments for the years 2011 and 2010 respectively:

Year ended 31 December 2011	Czech Republic sports betting	Czech Republic lottery	Czech Republic total	Slovakia	Poland	Other countries	TOTAL Continuing operations
€ 000							
Revenue	44,847	5,086	49,933	26,189	13,547	175	89,844
Taxation of earnings from betting/gaming	(8,041)	(1,344)	(9,385)	-	-	-	(9,385)
Depreciation and amortisation	(1,563)	(349)	(1,912)	(424)	(628)	(168)	(3,132)
Segment result	11,981	(7,042)	4,939	12,474	1,414	(1,996)	16,831
Capital expenditure	1,901	1,770	3,671	352	504	86	4,613
Non-current assets		11,222	11,222	873	1,305	365	13,765
Operating segment assets		26,262	26,262	12,828	4,631	795	44,516
Operating segment liabilities		12,275	12,275	2,938	1,927	577	17,717

Year ended 31 December 2010	Czech Republic sports betting	Slovakia	Poland	Other countries	TOTAL Continuing operations
€ 000					
Revenue	43,175	24,568	13,388	64	81,195
Taxation of earnings from betting	(6,799)	-	-	-	(6,799)
Depreciation and amortisation	(1,236)	(588)	(674)	(132)	(2,630)
Segment result	10,465	11,804	1,210	(1,026)	22,453
Capital expenditure	1,823	487	677	578	3,565
Non-current assets	9,864	945	1,615	448	12,872
Operating segment assets	21,780	11,875	3,361	7,992	45,008
Operating segment liabilities	8,263	2,964	1,800	715	13,742

Segment results for each operating segment excludes net finance costs of € 940 thousand and € 2,311 thousand for 2011 and 2010, profit on disposal of subsidiaries of € 0 thousand and € 4,171 thousand for 2011 and 2010, and income tax expense of € 2,571 thousand and € 2,769 thousand for 2011 and 2010.

Segment assets exclude goodwill of € 49,339 thousand and € 50,796 thousand as at 31 December 2011 and 31 December 2010, respectively, as these assets are managed on a group basis.

Segment liabilities excludes bank loans of € 28,501 thousand and € 29,136 thousand as at 31 December 2011 and 31 December 2010, respectively, and derivatives of € 935 thousand and € 919 thousand as at 31 December 2011 and 31 December 2010, respectively, as these liabilities are managed on a group basis.

Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

In connection with this, non-current assets consist of property, plant and equipment and intangible assets.

Information about product and services

An analysis of Fortuna Group's betting revenue for the period is as follows. Amounts staked do not represent Fortuna Group's revenue and comprises the total amount staked by customers on betting activities.

Year ended 31 December 2011	Czech Republic sports betting	Czech Republic lottery	Czech Republic total	Slovakia	Poland	Malta	TOTAL
€ 000							
Total amounts staked	214,968	9,889	224,857	131,298	49,370	3,819	409,344
- of which: Sports betting – Bets	205,706	-	205,706	125,261	43,443	3,819	378,229
- of which: Sports betting – Commissions	9,262	-	9,262	6,037	5,927	-	21,226
- of which: Lottery – Scratch tickets – Bets	-	3,391	3,391	-	-	-	3,391
- of which: Lottery – Numerical games – Bets	-	6,498	6,498	-	-	-	6,498
Paid out prizes	(170,333)	(4,790)	(175,123)	(98,857)	(29,941)	(3,619)	(307,540)
Gross win	44,635	5,099	49,734	32,441	19,429	200	101,804
- of which: Sports betting – Online	16,786	-	16,786	12,535	-	200	29,521
- of which: Sports betting – Retail	27,849	-	27,849	19,906	19,429	-	67,184
- of which: Lottery – Scratch tickets	-	1,590	1,590	-	-	-	1,590
- of which: Lottery – Numerical games	-	3,509	3,509	-	-	-	3,509
Withholding tax paid	-	-	-	(6,467)	(5,927)	(25)	(12,419)
Other revenues	212	(13)	199	215	45	-	459
Revenue	44,847	5,086	49,933	26,189	13,547	175	89,844
Taxation of earnings from betting/gaming	(8,041)	(1,344)	(9,385)	-	-	-	(9,385)
Gross profit from betting	36,594	3,755	40,349	25,974	13,502	175	80,000
- of which: Sports betting – Online	13,780	-	13,780	9,614	-	175	23,569
- of which: Sports betting – Retail	22,814	-	22,814	16,360	13,502	-	52,676
- of which: Lottery – Scratch tickets	-	1,208	1,208	-	-	-	1,208
- of which: Lottery – Numerical games	-	2,547	2,547	-	-	-	2,547
Gross profit margin – Sports betting (%)	17%	-	17%	20%	27%	5%	19%
Gross profit margin – Lottery (%)	-	38%	38%	-	-	-	38%

Year ended 31 December 2010	Czech Republic sports betting	Slovakia	Poland	Malta	TOTAL
€ 000					
Total amounts staked	205,293	122,266	55,348	2,570	385,477
- of which: Sports betting – Bets	196,189	117,151	48,705	2,570	364,615
- of which: Sports betting – Commissions	9,104	5,115	6,643	-	20,862
Paid out prizes	(162,453)	(92,022)	(35,681)	(2,506)	(292,662)
Gross win from betting	42,840	30,244	19,667	64	92,815
- of which: Sports betting – Online	12,555	10,307	-	64	22,926
- of which: Sports betting – Retail	30,285	19,937	19,667	-	69,889
Withholding tax paid	-	(5,855)	(6,643)	-	(12,498)
Other revenues	335	179	364	-	878
Revenue	43,175	24,568	13,388	64	81,195
Taxation of earnings from betting	(6,799)	-	-	-	(6,799)
Gross profit	36,041	24,389	13,024	64	73,518
- of which: Sports betting – Online	10,831	8,054	-	64	18,949
- of which: Sports betting – Retail	25,210	16,335	13,024	-	54,569
Gross profit margin – Sports betting (%)	18%	20%	24%	2%	19%

7. PERSONNEL EXPENSES

€ 000	31.12.2011	31.12.2010
Wages and salaries	(20,051)	(19,143)
Social security costs	(5,916)	(5,473)
Directors' remuneration	(244)	(220)
Other payroll costs	(712)	(740)
Share-based payment transaction expense (Note 28)	-	-
	(26,923)	(25,576)
Number of employees in the period:		
Average number of employees	2,618	2,699
Managers	8	7
Staff	2,610	2,692
Remuneration of key management personnel of Fortuna Group		
Wages and salaries	(840)	(616)
Social security costs	(158)	(125)
Share-based payment transaction expense (Note 28)	-	-
Total remuneration	(998)	(741)

8. OTHER OPERATING INCOME

€ 000	31.12.2011	31.12.2010
Gain on sale of fixed assets	32	5
Revenues from rental of real estate	420	99
Reversal of accruals and provisions	24	319
Other income	270	226
	746	649

9. OTHER OPERATING EXPENSES

€ 000	31.12.2011	31.12.2010
Operating lease expense (Note 32)	(11,644)	(10,185)
Materials and office supplies	(2,486)	(1,752)
Marketing and advertising	(8,144)	(4,007)
Telecommunication costs	(1,992)	(1,400)
Energy and utilities	(1,669)	(1,687)
Repairs and maintenance	(705)	(936)
Taxes and fees to authorities	(547)	(634)
Bad debt expense	(195)	(317)
Loss on sale of fixed assets	-	(35)
IT services	(1,641)	(612)
Third party services (legal, professional etc.)	(1,974)	(754)
Travelling and entertainment cost	(412)	(298)
Others	(2,910)	(1,769)
	(34,319)	(24,386)

Since 2011, expenses of the Czech companies are charged to the statement of income including VAT. In the year 2010 amounts were included to the expenses without VAT and related VAT receivables were fully provided for with effect to other operating expenses. The comparatives of other operating expenses were adjusted for VAT related to Czech companies. The change in 2011 has no effect on total other operating expenses, there is only a classification difference between Bad debt expense and other cost categories within other operating expenses.

As at 31 December 2010 VAT receivable of FORTUNA sázková kancelář a.s., arising from deduction of certain input VAT, had been challenged by the financial authority, followed by the several legal proceedings initiated by FORTUNA sázková kancelář a.s. The disputed VAT amount had been already paid by Fortuna sázková kancelář a.s. and was fully provided for in the Consolidated Financial Statements as at 31 December 2010.

In the first half of the year 2011 the Constitutional Court rejected the legal proceedings and FORTUNA sázková kancelář a.s. wrote off the receivable and related impairment. This transaction did not have influence on total Other operating expenses.

Other operating expenses increased with comparison to prior year mainly due to start-up costs of new activities such as scratch tickets and numerical games (lottery segment) in Czech Republic.

The "Others" expenses include the fees for stream (on-line coverage of sports events), which was launched in January 2011.

Bad debt expense in 2011 relates to doubtful receivables from former employees for cash desk shortages and thefts.

10. FINANCE COSTS AND INCOME

€ 000	31.12.2011	31.12.2010
Interest on bank loans and other finance costs	(1,969)	(1,882)
Interest on other debts and borrowings	(88)	(842)
Finance charges payable under finance lease and hire purchase contracts	(27)	(2)
Financial assets and liabilities at FV through P&L	(283)	(301)
Foreign exchange losses	(1,209)	(1,514)
Total finance costs	(3,576)	(4,541)
Interest on bank deposits	174	94
Interest income on other loans and receivables	32	432
Foreign exchange gains	2,430	1,704
Total finance income	2,636	2,230
Total finance costs, net	(940)	(2,311)

11. COMPONENTS OF OTHER COMPREHENSIVE INCOME

€ 000	31.12.2011	31.12.2010
Movements of other comprehensive income before tax		
Cash flow hedges		
Gains / (losses) arising during the year		
Interest rate swap contracts	(24)	(144)
Total effect on other comprehensive income resulting from cash flow hedges (before tax)	(24)	(144)
Tax effect of components of other comprehensive income		
Cash flow hedges		
Gains / (losses) arising during the year		
Interest rate swap contracts	4	27
Total tax effect on other comprehensive income resulting from cash flow hedges	4	27

12. INCOME TAX

The major components of income tax expense are:

€ 000	31.12.2011	31.12.2010
Current income tax:		
Current income tax charge	3,021	2,694
Prior year adjustments	(3)	-
Deferred tax:		
Relating to origination and reversal of temporary differences	(447)	75
Income tax expense reported in the statement of income	2,571	2,769

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at Fortuna Group's effective income tax rate for the years ended 31 December 2011 and 2010 is as follows:

€ 000	2011	2010
Accounting profit before tax from continuing operations	15,891	20,142
Loss before tax from a discontinued operation	-	(1,301)
Profit on disposal of discontinued operation	-	4,171
Accounting profit before income tax	15,891	23,012
At Dutch statutory income tax rate of 25% (2010: 25.5%)	3,973	5,868
Effect on permanent and other differences	(81)	(20)
Effect of previously unrecognised and unused tax losses and tax offsets now recognised deferred tax assets	-	-
Unrecognised tax asset from the tax losses incurred	350	702
Non deductible tax expenses	9,380	6,742
Non taxable betting revenues	(9,896)	(8,140)
Non taxable other income	-	(1,064)
Goodwill impairment	-	-
Adjustments in respect to current income tax of previous years	(3)	4
Utilisation of previously unrecognised tax losses	(23)	(19)
Effect of higher/lower tax rates in other countries	(1,129)	(1,319)
At the effective income tax rate of 16% (2010: 12%)	2,571	2,754
Income tax expense reported in the consolidated income statement	2,571	2,769
Income tax attributable to a discontinued operation	-	(15)
	2,571	2,754

Non taxable betting revenues consist of revenues from betting in the Czech Republic. According to Czech legislation, betting revenues are not subject to income tax but are subject to payments on publicly beneficial purposes. For more details see Note 3.17.3.

The effective income tax rate increased from 12% to 16%. This increase is a result of loss incurred in the year 2011 in Lottery segment in the Czech Republic.

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated statement of income	
	2011	2010	As at 1 January 2010	2011	2010
€ 000					
Difference between carrying amounts of property, plant and equipment for accounting and tax purposes	37	(20)	(48)	60	28
Impairment adjustments and provisions	398	165	272	254	(4)
Tax losses carried forward	133	-	430	133	15
Other	126	122	122	-	(99)
Deferred tax income / (expense)				447	(60)
Deferred tax asset / (liability)	694	267	776		
Reflected in the statement of financial position as follows:					
Deferred tax asset – continuing operations	699	272	242		
Deferred tax asset – discontinued operation	-	-	534		
Deferred tax liability – continuing operations	(5)	(5)	-		
Deferred tax asset, net	694	267	776		

Reconciliation of deferred tax asset:

€ 000	2011	2010
Opening balance as at 1 January	272	776
Tax income/expense during the period recognised in profit or loss	447	(55)
Tax income/expense during the period recognised in equity	4	28
Deferred tax changes – discontinued operation	-	(554)
Currency translation	(24)	77
Closing balance 31 December	699	272

Reconciliation of deferred tax liability:

€ 000	2011	2010
Opening balance as at 1 January	(5)	-
Tax income/expense during the period recognised in profit or loss	-	(5)
Closing balance 31 December	(5)	(5)

13. DISCONTINUED OPERATIONS

Disposals in 2011

The Group did not dispose any business during the year 2011.

Disposals in 2010

On 18 March 2010, management decided to dispose of FORTUNA SPORTSKA KLADIONICA, d.o.o. ("the Croatian subsidiary" or "Fortuna HR") to protect shareholders against the losses of the Croatian operations. On 26 March 2010, the Group completed the sale of its share in the Croatian subsidiary to Equinox Investment B.V. (related party) for € 1 in cash, resulting in a pre-tax gain of € 4,171 thousand.

The results for Croatia are as follows:

Statement of income

€ 000	2010
Amounts staked	11,507
Revenue	1,423
Taxation of earnings from betting	-
Personnel expenses	(1,116)
Depreciation and amortisation	(135)
Other operating income	17
Other operating expenses	(1,243)
Operating profit	(1,054)
Finance income	10
Finance costs	(257)
Loss before tax from discontinued operations	(1,301)
Attributable tax expense	15
Loss after tax for the period from discontinued operations	(1,286)

Statement of financial position

The major classes of assets and liabilities of the Croatian subsidiary as of the disposal date were as follows:

€ 000	26.3.2010
Assets	
Intangible Assets	180
Property, plant and equipment	887
Deferred tax assets	554
Cash and cash equivalents	1,770
Other assets	330
Total assets	3,721
Liabilities	
Provisions	(542)
Trade and other payables	(1,247)
Other liabilities	(8,858)
Total liabilities	(10,647)
Net assets	(6,926)
Cash outflow on sale:	
Consideration received	-
Net cash disposed of with the discontinued operation	1,770
Net cash outflow	1,770

The net cash flows incurred by in 2010 are as follows:

€ 000	31.12.2010
Operating	(1,050)
Investing	708
Financing	1,640
Net cash inflow / (outflow)	1,298
€	31.12.2010
Loss per share:	
Basic, from discontinued operations	(0.03)
Diluted, from discontinued operations	(0.03)

In September 2010 FEG entered into an agreement with Equinox Investments B.V. under which it has a call option for all shares in Fortuna HR held by Equinox Investments B.V., which as December 31st, 2010 constituted 90% of share capital in Fortuna HR. The option may be exercised within the three-year period starting from 1 July 2011 provided that Fortuna HR reports positive recurring EBITDA for three consecutive quarters. The Company has a right of first refusal which entitles it to purchase the shares in Fortuna HR for the amount offered by a third party wishing to acquire shares in Fortuna HR. In case FEGNV does not acquire shares in Fortuna HR for the indicated amount, Equinox Investments B.V. may sell the shares in Fortuna HR to such a third party and the call option will expire with respect to the shares sold to the third party. The call option and the right of first refusal shall automatically expire on 1 July 2014 provided that it will not be exercised on or before such date. Moreover, the option will expire if the minority shareholder of Fortuna HR, Mr. Velimir Čerkez exercises "buy-you-buy-me option". Per end of the year 2010, nil value has been allocated to the call option in the consolidated financial statements of FEGNV as the Croatian entity continues to generate negative results.

On 3 August 2011, the Management Board of Fortuna Entertainment Group NV received a notice from Equinox Investments B.V. inviting FEG to exercise its right to purchase shares in Fortuna HR pursuant to offer from an unnamed third party. The Management Board of Fortuna Entertainment Group NV decided not to exercise the option and informed Equinox Investments B.V. accordingly. As a result of that, FEG is no longer entitled to purchase shares in Fortuna HR and the option ceased.

14. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the year attributable to the shareholders by the weighted average number of ordinary shares in FEGNV outstanding during the year.

There were no dilutive potential ordinary shares at 31 December 2011 and 2010. Basic and diluted earnings per share were the same. The following reflects the income and share data used in the basic and diluted earnings per share computations:

€ 000	2011	2010
Net profit attributable to ordinary equity holders of the parent from continuing operations	13,320	17,373
Loss attributable to ordinary equity holders of the parent from a discontinued operation	-	(1,286)
Profit attributable to ordinary equity holders of the parent from disposal of discontinued operation	-	4,171
Net profit attributable to ordinary equity holders of the parent for earnings per share calculation	13,320	20,258
Weighted average number of ordinary shares for earnings per share calculation	52,000,000	50,350,685

Statement of income

€	2011	2010
Earnings per share from continuing operations	0.256	0.345
Earnings per share from a discontinued operation	-	0.057
	0.256	0.402

No other transactions involving ordinary shares or potential ordinary shares took place between the reporting date and the date of completion of these consolidated financial statements.

15. GOODWILL

€ 000	Goodwill
At 1 January 2010	54,792
Reduction in goodwill	-
Additions arising on acquisition of subsidiaries	445
Disposal of subsidiaries	(7,121)
Currency translation	2,680
At 31 December 2010	50,796
Impairment of goodwill:	
At 1 January 2010	(4,366)
Impairment for the year	-
Impairment on acquisition of subsidiaries	-
Disposal of subsidiaries	4,366
Currency translation	-
At 31 December 2010	0
Carrying amount at 31 December 2010	50,796
At 1 January 2011	50,796
Reduction in goodwill	-
Additions arising on acquisition of subsidiaries	-
Disposal of subsidiaries	-
Currency translation	(1,457)
At 31 December 2011	49,339
Impairment of goodwill:	
At 1 January 2011	0
Impairment for the year	-
Impairment on acquisition of subsidiaries	-
Disposal of subsidiaries	-
Currency translation	-
At 31 December 2011	0
Carrying amount at 31 December 2011	49,339

Goodwill arising from a business combination is allocated upon acquisition to each of Fortuna Group's cash generating units (CGUs) that are expected to benefit from the synergies of the business combination. Details of goodwill arising during the periods are shown in Note 5.

The recoverable amounts of the CGUs are determined from value in use calculations and fair values of the related CGUs. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in revenue per branch and direct costs incurred during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

The current goodwill relates only to acquisitions of Czech companies operating in the sports betting industry.

The cash flow projections cover period of four years (2010: three years) and are discounted using the pre-tax discount rate of 13.56% (2010: 13.56%) for the Czech Republic. The valuation model used annual operating cash-flow decrease of 28.8% for the year 2012 due to changes in the tax legislation in the Czech Republic, then average annual operating cash-flow growth rate of 10.6% for the next three years and growth of 2% per annum in subsequent years, which is currently the estimated growth for the betting business. In the year 2010 the valuation model used average annual operating cash-flow growth rate of 9.6% for the next three years and growth of 2% per annum in subsequent years.

The carrying amount of goodwill has been allocated as follows:

Carrying amount of goodwill allocated to segments

€ 000	31.12.2011	31.12.2010
Czech Republic – sports betting	49,339	50,796
	49,339	50,796

Fortuna Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use management believes that no reasonably possible change in any of the above key assumptions would cause the carrying amount of goodwill to materially exceed its recoverable amount.

16. INTANGIBLE ASSETS

	Software	Brand Name	Other intangible fixed assets	Total
€ 000				
Cost:				
At 1 January 2010	1,606	6,182	23	7,811
Additions	1,072	-	5	1,077
Disposals	(17)	-	(4)	(21)
Additions arising on acquisition of subsidiaries	-	-	-	-
Disposals arising on disposal of subsidiaries	(215)	-	-	(215)
Transfers	-	-	-	-
Currency translation	72	344	-	416
At 31 December 2010	2,518	6,526	24	9,068
Accumulated amortisation:				
At 1 January 2010	521	-	18	539
Amortisation for the year	587	-	6	593
Disposals	(6)	-	(4)	(10)
Transfers	-	-	-	-
Additions arising on acquisition of subsidiaries	-	-	-	-
Disposals arising on disposal of subsidiaries	(34)	-	-	(34)
Currency translation	27	-	-	27
At 31 December 2010	1,095	-	20	1,115
Carrying amount at 31 December 2010	1,423	6,526	4	7,953
Carrying amount at 1 January 2010	1,085	6,182	5	7,272
Cost:				
At 1 January 2011	2,518	6,526	24	9,068
Additions	677	-	133	810
Disposals	-	-	-	-
Additions arising on acquisition of subsidiaries	-	-	-	-
Disposals arising on disposal of subsidiaries	-	-	-	-
Transfers	-	-	-	-
Currency translation	(97)	(187)	(6)	(290)
At 31 December 2011	3,098	6,339	151	9,588
Accumulated amortisation:				
At 1 January 2011	1,095	-	20	1,115
Amortisation for the year	700	-	47	747
Disposals	-	-	-	-
Transfers	-	-	-	-
Additions arising on acquisition of subsidiaries	-	-	-	-
Disposals arising on disposal of subsidiaries	-	-	-	-
Currency translation	(61)	-	(2)	(63)
At 31 December 2011	1,734	-	65	1,799
Carrying amount at 31 December 2011	1,364	6,339	86	7,789
Carrying amount at 1 January 2011	1,423	6,526	4	7,953

Upon acquisition of the subsidiary FORTUNA sázková kancelář a.s., which operates in the Czech Republic, the Consolidated Group recognised an intangible brand name "FORTUNA" which was assessed as having an indefinite useful life, as there is no foreseeable limit to the period over which it is expected to generate net cash inflows, given the strength and durability of the brand and the level of marketing support. The brand has been in the market in the Czech Republic since 1990. The intangible is not amortised and is tested for impairment at year end. The carrying amount of the intangible was € 6,339 thousand as at 31 December 2011 (2010: € 6,526 thousand). The movement in the carrying amount represents foreign exchange loss due to the depreciation of the Czech crown against the euro. The brand name was pledged as a security for bank loans (Note 27).

The intangible asset does not generate largely independent cash inflows and is allocated to the Czech operations as the lowest level of cash generating unit. The Czech operation was tested for impairment by applying discounted cash flow techniques and using projected financial results.

The current goodwill relates only to acquisitions of Czech companies operating in the sports betting industry.

The cash flow projections cover period of four years (2010: three years) and are discounted using the pre-tax discount rate of 13.56% (2010: 13.56%) for the Czech Republic. The valuation model used annual operating cash-flow decrease of 28.8% for the year 2012 due to changes in the tax legislation in the Czech Republic, then average annual operating cash-flow growth rate of 10.6% for the next three years and growth of 2% per annum in subsequent years, which is currently the estimated growth for the betting business. In the year 2010 the valuation model used average annual operating cash-flow growth rate of 9.6% for the next three years and growth of 2% per annum in subsequent years.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use management believes that no reasonably possible change in any of the above key assumptions would cause the carrying amount of the unit to materially exceed its recoverable amount.

17. PROPERTY, PLANT AND EQUIPMENT

€ 000	Land and buildings	Plant and equipment	Other assets	Assets not yet in use	Total
Cost:					
At 1 January 2010	2,019	13,018	14	909	15,960
Additions	70	1,755	-	721	2,546
Disposals	(3)	(1,665)	-	(230)	(1,898)
Additions arising on acquisition of subsidiaries	-	2	-	-	2
Disposals arising on disposal of subsidiaries	-	(2,550)	-	(5)	(2,555)
Transfers	-	991	-	(991)	-
Currency translation	90	386	1	36	513
At 31 December 2010	2,176	11,937	15	440	14,568
Accumulated depreciation:					
At 1 January 2010	923	9,470	-	-	10,393
Depreciation charge for the year	166	2,006	-	-	2,172
Disposals	(3)	(1,578)	-	-	(1,581)
Transfers	-	-	-	-	-
Additions arising on acquisition of subsidiaries	-	-	-	-	-
Disposals arising on disposal of subsidiaries	-	(1,668)	-	-	(1,668)
Currency translation	45	288	-	-	333
At 31 December 2010	1,131	8,518	-	-	9,649
Carrying amount at 31 December 2010	1,045	3,419	15	440	4,919
Carrying amount at 1 January 2010	1,096	3,548	14	909	5,567
Cost:					
At 1 January 2011	2,176	11,937	15	440	14,568
Additions	87	2,964	-	752	3,803
Disposals	(60)	(818)	-	(30)	(908)
Additions arising on acquisition of subsidiaries	-	-	-	-	-
Disposals arising on disposal of subsidiaries	-	-	-	-	-
Transfers	-	300	-	(300)	-
Currency translation	(87)	(688)	-	(39)	(814)
At 31 December 2011	2,116	13,695	15	823	16,649
Accumulated depreciation:					
At 1 January 2011	1,131	8,518	-	-	9,649
Depreciation charge for the year	170	2,215	-	-	2,385
Disposals	(60)	(789)	-	-	(849)
Transfers	-	-	-	-	-
Additions arising on acquisition of subsidiaries	-	-	-	-	-
Disposals arising on disposal of subsidiaries	-	-	-	-	-
Currency translation	(41)	(471)	-	-	(512)
At 31 December 2011	1,200	9,473	-	-	10,673
Carrying amount at 31 December 2011	916	4,222	15	823	5,976
Carrying amount at 1 January 2011	1,045	3,419	15	440	4,919

18. CURRENT RECEIVABLES

Current receivables € 000	31.12.2011	31.12.2010
Receivables from related parties	53	238
Advance payments and deposits	351	420
Other receivables (current)	2,209	349
	2,613	1,007

For terms and conditions relating to related party receivables, refer to Note 31.

Other receivables also include receivables from cash shortages from former or current employees in the Czech Republic which are stated net of a provision of € 678 thousand in 2011 (2010: € 639 thousand).

As at 31 December 2011, the provision for impairment of current receivables (excluded receivables from employees mentioned above) amounted to € 59 thousand (2010: € 60 thousand). See the table below for the movements in the provision for impairment of receivables.

Movement in the provision for impairment of receivables € 000	Individually impaired
At 1 January 2010	207
Amount written off during the year	(139)
Amounts recovered during the year	(16)
Charge for the year	-
Currency translation	8
At 31 December 2010	60
At 1 January 2011	60
Amount written off during the year	(5)
Amounts recovered during the year	6
Charge for the year	-
Currency translation	(2)
At 31 December 2011	59

The following table relates to ageing of current receivables. As at 31 December 2011 and 2010 most of the receivables were neither past due nor impaired.

€ 000	Neither past due nor impaired	<30 days	31-60 days	Past due but not impaired		>181 days	Total
				61-90 days	91-180 days		
31 December 2011	1,873	330	1	7	30	372	2,613
31 December 2010	1,002	-	-	-	1	4	1,007

In the consolidated statement of the financial position of the Company there are no other financial assets that are past due but not impaired.

19. OTHER ASSETS

Other non-current assets		
€ 000	31.12.2011	31.12.2010
Receivables from related parties	35	–
Advance payments and security deposits	793	616
Other	105	12
	933	628

Advance payments and security deposits consist mostly of rental deposits paid for rent of Fortuna branches.

Other non-current assets include advance payments in Slovakia which are stated net of a provision of € 12 thousand in 2011 (2010: € 22 thousand).

Other current assets		
€ 000	31.12.2011	31.12.2010
Marketing materials	143	94
Goods for sale	488	1
Office materials and others	61	12
Prepayments	1,256	805
	1,948	912

20. RESTRICTED CASH

€ 000	31.12.2011	31.12.2010
Restricted cash	6,913	3,743

Fortuna Group has limited access to cash deposits made with banks. The funds are blocked in accordance with the Gaming regulations of Slovak and the Czech Republic. According to Czech and Slovak legislation a betting company has to deposit certain amounts of cash as security for potential liabilities to state and betters to a special bank account. The Company can only withdraw the security upon approval from the state authorities once the gaming activity terminates.

21. CASH AND CASH EQUIVALENTS

€ 000	31.12.2011	31.12.2010
Cash at bank	15,220	23,140
Cash in hand and in transit	2,313	2,195
Cash and cash equivalents	17,533	25,335

Cash at banks bears interest at floating rates based on daily bank deposit rates.

Short-term deposits are classified as a cash equivalent only if they have terms to maturity of three months or less.

Fortuna Group has pledged € 287 thousand of its cash in bank deposits as security for bank loans (2010: € 5,408 thousand).

22. DERIVATIVES

As of 31 December 2011, Fortuna Group held interest rate swaps with a notional amount of € 26,491 thousand (2010: € 33,519 thousand). These swaps fix the 3-month PRIBOR/EURIBOR variable interest rates. The interest rate swap in FORTUNA SK, a.s. is designated as a cash flow hedge.

Interest rate swaps € 000	31.12.2011 Liabilities	31.12.2010 Liabilities
Cash flow hedge	(533)	(509)
Held for trading	(402)	(410)
Total cash flow hedges	(935)	(919)

23. ISSUED CAPITAL AND RESERVES

Authorised shares

	2011 # of shares thousands	2010 # of shares thousands
Ordinary shares of € 0,01 each	250,000	250,000
	250,000	250,000

On 27 September 2010 the Articles of Association of FEGNV were amended. The number of authorized ordinary shares was increased from 22,500 shares to 250,000,000 and the nominal value of authorized shares was decreased from € 10 per share to € 0.01 per share.

Ordinary shares issued and fully paid

	# of shares thousands	Par value per share €	Share capital € 000
At 31 December 2009	4.5	10	45
27 September 2010 – decrease of the nominal value of existing shares from € 10 per share to € 0.01 per share	4,500	0.01	45
27 September 2010 – issue of ordinary bearer shares	45,500	0.01	455
28 October 2010 – issue of ordinary bearer shares	2,000	0.01	20
At 31 December 2010	52,000	0.01	520
At 31 December 2011	52,000	0.01	520

On 27 September 2010 the Articles of Association of FEGNV were amended. The nominal value per share was decreased from € 10 per share to € 0,01 per share. At the same time FEGNV issued 45,500,000 additional bearer shares which were all acquired by Penta Investments Ltd.

On 28 October 2010 FEGNV issued an additional 2,000,000 ordinary bearer shares, which were floated at the Polish stock exchange at Warsaw.

Share premium

There were no movements in share premium during the year 2011.

Statutory reserve

In accordance with the commercial law in Czech Republic and Slovak Republic, companies are required to form an undistributable statutory reserve for contingencies against possible future losses and other events.

In the Czech Republic, contributions must be at least 20% of after-tax profit in the first year in which profits are made and 5% of after-tax profit for each subsequent year, until the fund reaches at least 20% of share capital. The fund can only be used to offset losses.

In Slovakia, contributions must be at least 10% of the share capital upon foundation of the company and at least 10% of after-tax profit for each subsequent year, until the fund reaches at least 20% of share capital. The fund can only be used to offset losses.

The reserve represents the amount of these undistributable funds, which cannot be transferred to the parent company in the form of dividends. Dividend capacity of FEGNV is not affected as the distribution to FEGNV shareholders is determined only by corporate equity of FEGNV.

Net unrealised gains reserve

The net loss on cash flow hedges during the year recognised in equity was € 533 thousand, net of tax effect of € 101 thousand, i.e. € 432 thousand (2010: € 509 thousand, net of tax effect of € 97 thousand, i.e. € 412 thousand). The item relates to FORTUNA SK, a.s. and is presented under other comprehensive income.

Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial information of foreign subsidiaries.

24. DIVIDENDS PAID AND PROPOSED

The Annual General Meeting (AGM) of shareholders of Fortuna Entertainment Group N.V. held on 25 May 2011 in Amsterdam approved a Management Board's proposal to pay-out a gross dividend of € 0.30 in cash per share for the financial year 2010.

Actual payment of dividend occurred on 24 June 2011. The dividend pay-out for 2010 represented approximately 90% of the net profit from the continuing operations (consolidated accounts) and it was in accordance with the communicated dividend policy – the dividend payout ratio is 70–100% of the net profit from the continuing operations (consolidated accounts).

Declared and paid during the year € 000	2011	2010
Dividend for 2009 paid in 2010	-	-
Dividend for 2010 paid in 2011	15,600	-
Total	15,600	-

Distributable funds are based on the company only financial statements of the individual companies.

25. FAIR VALUES

Fair value hierarchy

As at 31 December 2011, Fortuna Group had derivative contracts measured at fair value of € 935 thousand.

All financial instruments carried at fair value are categorised in three categories by reference to the observability and significance of the inputs used in measuring fair value. The categories are defined as follows:

Level 1 – Quoted market prices

Level 2 – Valuation techniques (market observable)

Level 3 – Valuation techniques (non-market observable)

As at 31 December 2011, the Group held the following financial instruments measured at fair value:

Financial instruments € 000	31 December 2011	Level 1	Level 2	Level 3
Interest rate swaps	(935)	–	(935)	–

There is no change in the classification of the interest rate swaps occurring since the previous year.

Fortuna Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the credit duality of counterparties and interest rate curves.

Set out below is a comparison by class between the carrying amounts and fair values of Fortuna Group's financial instruments as disclosed in the financial statements.

31 December 2011 € 000	Carrying amount	Fair value
Assets		
Related party loans	–	–
Restricted cash	6,913	6,913
Other non-current assets	933	933
Current receivables	2,613	2,613
Cash and cash equivalents	17,533	17,533
Liabilities		
Long-term bank loans	22,573	22,573
Related party loans	–	–
Other non-current liabilities	–	–
Trade and other payables	15,650	15,650
Derivatives	935	935
Short-term bank loans and overdrafts	–	–
Current portion of long-term bank loans	5,928	5,928

31 December 2010 € 000	Carrying amount	Fair value
Assets		
Related party loans	–	–
Restricted cash	3,743	3,743
Other non-current assets	628	628
Current receivables	1,007	1,007
Cash and cash equivalents	25,335	25,335
Liabilities		
Long-term bank loans	24,115	24,115
Related party loans	–	–
Other non-current liabilities	29	29
Trade and other payables	12,223	12,223
Derivatives	919	919
Short-term bank loans and overdrafts	–	–
Current portion of long-term bank loans	5,021	5,021

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Cash and short-term deposits, current receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term fixed-rate and variable-rate receivables and borrowings are evaluated by Fortuna Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of customers and risk characteristics of the financed project. Based on this evaluation, provisions are formed for the expected losses of these receivables. As at 31 December 2011, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.

The fair value of loans from banks and other financial liabilities, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

26. PROVISIONS

€ 000	Employee bonuses	Provision for tax risks	Jackpot	Other provisions	Total
At 1 January 2011	257	-	-	4	261
Arising during the year	486	-	494	18	998
Utilised	(210)	-	-	(1)	(211)
Discount rate adjustment	-	-	-	-	-
Acquisition of a subsidiary	-	-	-	-	-
Disposal of a subsidiary	-	-	-	-	-
Currency translation	(13)	-	(23)	-	(36)
At 31 December 2011	520	-	471	21	1,012
Short-term part of the provision	467	-	-	21	488
Long-term part of the provision	53	-	471	-	524
At 31 December 2011	520	-	471	21	1,012
At 1 January 2010	35	383		114	532
Arising during the year	217	10	-	58	285
Utilised	-	-	-	(23)	(23)
Discount rate adjustment	2	-	-	-	2
Acquisition of a subsidiary	-	-	-	-	-
Disposal of a subsidiary	-	(397)	-	(146)	(543)
Currency translation	3	4	-	1	8
At 31 December 2010	257	-	-	4	261
Short-term part of the provision	204	-	-	4	208
Long-term part of the provision	53	-	-	-	53
At 31 December 2010	257	-	-	4	261

Employee bonuses

The Company has formed a provision for employee bonuses. The exact amount is uncertain as it is subject to management approval after the balance sheet date.

Provision for tax risks

In 2009, the provision for tax risks related to the Croatian entity, which had several tax issues concerning value added tax, personal income tax and contributions and corporate income tax, with possible liabilities resulting from expected cash settlements with uncertain timing. The amount provided for was a best estimate of the amount which should be paid in the future, taking into account Croatian tax legislation. Resulting from a disposal of Croatian entity in March 2010 the reason for creation of a provision lapsed.

Provision for Jackpot

Jackpot provision is accounted for at fair value as derivatives. As this financial instrument is not quoted on an active market and no observable data is available, the fair value of this financial instrument is not determined by reference to published price quotations nor estimated by using a valuation technique based on assumptions supported by prices from observable current market transactions.

27. BANK LOANS

The summary of the actual structure of the loans from Česká Spořitelna, a.s. is provided below:

Long-term bank loans € 000	Currency	Effective interest rate	Security	Maturity	2011	2010
Loan A – Tranche I	CZK	3M PRIBOR + 2,85%	shares of the Czech subsidiary companies; pledge on bank accounts; brand name FORTUNA; bill of exchange; letter of comfort issued by Penta Holding Limited	2015	2,105	2,830
Loan A – Tranche II	CZK	3M PRIBOR + 3,35%	shares of the Czech subsidiary companies; pledge on bank accounts; brand name FORTUNA; bill of exchange; letter of comfort issued by Penta Holding Limited	2015	1,024	1,051
Loan A – Tranche III	EUR	3M EURIBOR + 2,85%	shares of the Czech subsidiary companies; pledge on bank accounts; brand name FORTUNA; bill of exchange; letter of comfort issued by Penta Holding Limited	2015	2,651	3,459
Loan A – Tranche IV	EUR	3M EURIBOR + 3,35%	shares of the Czech subsidiary companies; pledge on bank accounts; brand name FORTUNA; bill of exchange; letter of comfort issued by Penta Holding Limited	2015	1,296	1,292
Loan A – Tranche V	CZK	1M PRIBOR + 1,65%	shares of the Czech subsidiary companies; pledge on bank accounts; brand name FORTUNA; bill of exchange; letter of comfort issued by Penta Holding Limited	2013	3,180	806
Loan A – Tranche VIII	CZK	3M PRIBOR + 2,35%	shares of the Czech subsidiary companies; pledge on bank accounts; brand name FORTUNA; bill of exchange; letter of comfort issued by Penta Holding Limited	2014	1,946	–
Loan B – Tranche I	CZK	3M PRIBOR + 2,85%	shares of the Czech subsidiary companies; pledge on bank accounts; brand name FORTUNA; bill of exchange; letter of comfort issued by Penta Holding Limited	2015	2,506	3,369
Loan B – Tranche II	CZK	3M PRIBOR + 3,35%	shares of the Czech subsidiary companies; pledge on bank accounts; brand name FORTUNA; bill of exchange; letter of comfort issued by Penta Holding Limited	2015	1,275	1,310
Loan B – Tranche III	EUR	3M EURIBOR + 2,85%	shares of the Czech subsidiary companies; pledge on bank accounts; brand name FORTUNA; bill of exchange; letter of comfort issued by Penta Holding Limited	2015	3,103	4,050
Loan B – Tranche IV	EUR	3M EURIBOR + 3,35%	shares of the Czech subsidiary companies; pledge on bank accounts; brand name FORTUNA; bill of exchange; letter of comfort issued by Penta Holding Limited	2015	1,595	1,590
Loan C – Tranche I	EUR	6M EURIBOR + 2,75%	shares of FORTUNA SK, a.s.; pledge on bank account; bill of exchange; letter of comfort issued by Penta Holding Limited	2013	2,565	3,864
Loan C – Tranche II	EUR	6M EURIBOR + 2,95%	shares of FORTUNA SK, a.s.; pledge on bank account; bill of exchange; letter of comfort issued by Penta Holding Limited	2014	1,835	2,170
Loan C – Tranche III	EUR	6M EURIBOR + 3,35%	shares of FORTUNA SK, a.s.; pledge on bank account; bill of exchange; letter of comfort issued by Penta Holding Limited	2014	3,232	3,219
Finance lease	CZK				187	109
Finance lease	PLN				1	17
					28,501	29,136
of which current portion					5,928	5,021
Total long-term loans					22,573	24,115

At 31 December 2011, Fortuna Group had undrawn committed borrowing facilities of € 3,556 thousand (2010: € 6,214 thousand) for which all conditions set had been met.

At 31 December 2011 Fortuna Group was in compliance with bank loan covenants.

28. SHARE-BASED PAYMENT PLANS

The General Meeting of Fortuna Entertainment Group N.V. held in Amsterdam on 25 May 2011 authorized the Company to adopt the stock option plan (hereinafter referred to as the "Plan"). The Plan is valid from 30 June 2011 and grants the option (right) to acquire shares at the exercise price of CZK 115 per share for employees in the betting divisions of the main subsidiaries of Fortuna Entertainment Group NV (i.e. Fortuna Entertainment Group NV, Fortuna Sázková kancelář a.s., Fortuna zakłady bukmacherskie Sp. z o.o., Fortuna SK a.s. and FortunaWin Ltd., Fortuna software s.r.o), which were employed by the company on or before 31 December 2010. Options granted in 2011 will vest as of 1 March 2012. Options granted in 2011 can be exercised at anytime for a period of one year, i.e. until 28 February 2013. At the exercise date, the option holder is entitled to remuneration from the company which is calculated as the difference between the closing price of shares in the Prague Stock Exchange or in the Warsaw Stock Exchange at the exercise date, and the exercise price (cash-settled transaction). The option holder may decide to acquire physical shares. In such a case, the company will purchase shares on behalf of the option holder and transfer them to the respective holder (equity-settled transaction). However the company does not expect equity settlement for these options.

The fair value of the share options at the grant date was measured using a binomial model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. As the fair value of options granted was nil as at 31 December 2011, there is not recognised any expense or liability from share option plan.

Movements in the year

The following table illustrates the number and exercise price of, and movements in, share options during the year:

	2011 Number	2011 Exercise price in CZK
Outstanding at 1 January	-	-
Granted during the year	264,000	115
Forfeited during the year	(11,000)	115
Outstanding at 31 December	253,000	115
Exercisable at 31 December	-	-

The remaining contractual life for the share options outstanding as at 31 December 2011 is 1.17 year.

The weighted average fair value of options granted during the year was € 0.

The exercise price for options outstanding at the end of the year was CZK 115.

The following table list the inputs to binomial model used for share option plan for the year ended 31 December 2011:

	2011
Current share price (CZK)	91.75
Strike share price (CZK)	115
Dividend yield (%)	8
Expected volatility (%)	9
Risk-free interest rate (%)	1.04
Expected life of share options (years)	1.17

The expected life of the share options is based on termination of vested period. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

29. TRADE AND OTHER PAYABLES (CURRENT)

€ 000	31.12.2011	31.12.2010
Trade and other payables (current)		
Trade accounts and notes payable	(2,111)	(1,623)
Payables to related parties	(36)	(23)
Liability arising from acquisition of subsidiary	(28)	(115)
Wages and salaries payable	(1,523)	(1,604)
Social security and health contributions payable	(723)	(830)
Taxation on earning from betting and others	(5,604)	(4,143)
Unpaid wins	(2,228)	(2,330)
Other deferred income and accrued expenses	(2,794)	(1,235)
Received deposits	(3)	(3)
Other payables and estimated accounts payable	(600)	(317)
	(15,650)	(12,223)

Open bets are accounted for at fair value as derivatives. As these financial instruments are not quoted on an active market and no observable data is available, the fair value of these financial instruments are not determined by reference to published price quotations nor estimated by using a valuation technique based on assumptions supported by prices from observable current market transactions. Open bets are paid out within a short time frame after year end and as a result the difference between the fair value of these financial instruments as of year-end and the fair value as of the actual pay out date is deemed immaterial. Therefore the Company determined the fair value on the actual consideration on the pay-out date. For that reason no reconciliation of beginning and ending balance disclosing the changes to the period is presented. Open bets at year end are included in deferred income.

In 2011 and 2010 liability arising from acquisition of subsidiary represents the short-term portion of the unpaid purchase price of NAVI PRO s.r.o. (see Note 5).

30. OTHER NON-CURRENT LIABILITIES

€ 000	31.12.2011	31.12.2010
Other non-current liabilities		
Liability arising from acquisition of subsidiary	-	(29)
	-	(29)

Liability arising from acquisition of subsidiary in the year 2010 represented the long-term portion of the unpaid purchase price of NAVI PRO s.r.o. (see Note 5).

31. RELATED PARTY DISCLOSURES

The consolidated financial statements include the following companies:

Consolidated entities	Country of incorporation	Nature of activity
Fortuna Entertainment Group N.V.	The Netherlands	Holding company
RIVERHILL a.s.	Czech Republic	Holding company
ALICELA a.s.	Czech Republic	Holding company
FORTUNA sázková kancelář a.s. *****	Czech Republic	Sports betting
FORTUNA GAME a.s.	Czech Republic	Sports betting
FORTUNA RENT s.r.o.	Czech Republic	Rentals
FORTUNA sázky a.s.	Czech Republic	Dormant company
FORTUNA SPORTSKA KLADIONICA, d.o.o. *	Croatia	Sports betting
FORTUNA zakłady bukmakerskie Sp. z o.o. **	Poland	Sports betting
FORTUNA SK, a.s. ***	Slovakia	Sports betting
FORTUNA REAL, s.r.o. ***	Slovakia	Rentals
NAVI PRO s.r.o. ****	Czech Republic	Software company
ibet, s.r.o. *****	Czech Republic	Call centre support
FortunaWin Ltd.	Malta	Online betting
FortunaWin Gaming Ltd	Malta	Online gaming

* Sold in March 2010 to related party. Till March 2010 included in the consolidated group, from April 2010 included in related parties. In August 2011 sold to third party and is not included in related parties anymore.

** Acquired in May 2010

*** Acquired in January 2010

**** Acquired in March 2010 and subsequently renamed to FORTUNA software s.r.o.

***** Established in 2010

***** Effective 4 January 2012, FORTUNA sázková kancelář a.s. changed its name to Fortuna Loterie a.s.

The following table lists the total amounts relating to transactions entered into with related parties for the relevant financial year:

Consolidated statement of financial position € 000	31.12.2011	31.12.2010
Receivables from related parties		
AERO Vodochody, a.s.	1	1
Privatbanka, a.s.	6	-
Digital Park Einsteinova, a.s.	81	-
FORTUNA SPORTSKA KLADIONICA, d.o.o.	-	237
Total receivables from related parties	88	238
Payables to related parties		
DÔVERA zdravotná poisťovňa, a.s.	15	16
AERO Vodochody, a.s.	-	6
AB Facility, s.r.o.	1	-
Avis Accounting BV	4	-
Penta Investments Limited, Cyprus	16	1
Total payables to related parties	36	23
Cash in related parties		
Privatbanka, a.s.	6,659	4,937
Total cash in related parties	6,659	4,937

The payables to DÔVERA zdravotná poisťovňa, a.s. relate to health insurance payments.

Consolidated statement of income
€ 000

1.1.2011-31.12.2011 1.1.2010-31.12.2010

Sales to related parties

FORTUNA SPORTSKA KLADIONICA, d.o.o.	27	15
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Total sales to related parties

27 15

Financial income from related parties

Penta Investments Limited, Cyprus	-	422
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Privatbanka, a.s.	26	9
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Total financial income from related parties

26 431

Financial expense from related parties

Penta Investments Limited, Cyprus	-	135
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Equinox Investments B.V.	-	31
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Privatbanka, a.s.	1	5
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Total financial expense from related parties

1 171

Purchases from related parties

Penta Investments Limited, Cyprus	-	2
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DÔVERA zdravotná poisťovňa, a.s.	122	110
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Digital Park Einsteinova, a.s.	178	88
--------------------------------	-----	----

AB Facility, s.r.o.	2	-
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Avis Accounting BV	21	-
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AERO Vodochody, a.s.	1	13
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Predict Performance Improvement Ltd	73	-
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FORTUNA PARK spol. s r.o.	-	2
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MobilKom, a.s.	1	1
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Total purchases from related parties	398	205
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The sales to and purchases from related parties are conducted at normal market prices. Outstanding balances at year end are unsecured, interest free, with settlement being in cash. No guarantees have been provided or received for any related party receivables or payables. For the years ended 31 December 2011 and 2010, Fortuna Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is made each financial year by examining the financial position of the related party and the market in which the related party operates.

Financial income and expense from Privatbanka a.s. relates to bank fees and interest on bank account balances.

Purchases from DÔVERA zdravotná poisťovňa, a.s. represent health insurance payments. Purchases from Digital Park Einsteinova, a.s. relate to rent of office premises.

Shares Held by the Management

As of 31 December 2011 key management held 6,855 shares of FEGNV, representing 0.01% of aggregate voting rights and 56,000 stock options issued under Stock Option Plan described in Note 28 and members of the Supervisory Board held 5,253 shares, representing 0.01% of aggregate voting rights. Apart from the information provided above, no other member of the Management Board, the Supervisory Board and the key management owns any shares in FEGNV.

32. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

Operating leases mainly relate to buildings with lease terms of between three to ten years. All operating lease contracts contain market review clauses in the event that Fortuna Group exercises its option to renew. The Company does not have an option to purchase the leased assets at expiry of the lease period.

Fortuna Group has also entered into lease agreements on certain motor vehicles and items of machinery. These leases have a useful life of three years with no renewal option included in the contracts. No restrictions have been placed upon Fortuna Group when entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

€ 000	2011	2010
Instalments due within one year	4,854	5,533
Instalments due between two and five years	7,378	7,129
Instalments due after more than five years	2,343	564
Operating lease expense (Note 9)	(11,644)	(10,185)

Some of the contracts include also variable payments dependent on amounts staked and due to their contingency they are not part of the minimum rentals payable.

Finance lease and hire purchase commitments

Fortuna Group has entered into finance leases and hire purchase contracts for various items of machinery and vehicle. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance leases and hire purchase contracts including the present value of the net minimum lease payments can be broken down as follows:

€ 000	2011	2010
Within one year	94	100
After one year but not more than five years	134	39
More than five years	-	-
Total minimum lease payments	228	139
Future finance charges on finance leases	(40)	(14)
Present value of finance lease payments	188	125
Carrying amount of assets under finance leases	207	144

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Fortuna Group's principal financial instruments, other than derivatives, comprise bank loans, overdrafts, cash and short-term deposits. The main purpose of these financial instruments is to raise funds for Fortuna Group's operations. Fortuna Group has various other financial instruments such as current receivables, trade and other payables that arise directly from its operations.

Fortuna Group also enters into derivative transactions, such as interest rate swaps. The purpose of these transactions is to assist in the management of Fortuna Group's financial risk and to generate the desired effective interest rate profile.

Fortuna Group is exposed to market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, cash and cash equivalents, deposits and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December 2011 and 2010.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2011 and 2010.

The following assumptions have been made in calculating the sensitivity analyses:

- The statement of financial position sensitivity relates to derivatives
- The sensitivity of the relevant statement of income item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2011 and 2010 including the effect of hedge accounting

It is, and has been throughout the year under review, Fortuna Group's policy that no trading in financial instruments shall be undertaken other than betting and gaming transactions.

Interest rate risk

Fortuna Group is exposed to interest rate risk on interest bearing loans and borrowings and on cash and cash equivalents.

Fortuna Group manages the interest rate risk by having a balanced portfolio of fixed and variable rate loans. Fortuna Group's policy for the year ended 31 December 2011 and 2010 was to maintain a minimum of 25% of its borrowings at fixed interest rates. To manage this Fortuna Group enters into interest rate swaps, in which Fortuna Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2011, after taking into account the effect of the interest rate swaps eligible for hedge accounting, approximately 27% (2010: 32%) of Fortuna Group's borrowings are at a fixed rate of interest.

Foreign currency risk

Fortuna Group carries out operations through a number of foreign enterprises. The day to day transactions of foreign subsidiaries are carried out in local currencies. Fortuna Group's exposure to currency risk at a transactional level is monitored and reviewed regularly.

Fortuna Group seeks to mitigate the effect of its structural currency exposure arising from the translation of foreign currency assets through bank loan drawings in the same currencies. However there are bank loans drawn in euro in the Czech entities (Note 27) which constitute currency exposure.

The exchange risk is kept at an acceptable level since the majority of operations is carried out within operating companies and hence any movement of currency rates of their functional currencies against each other and the euro (e.g Czech Korunas, Polish Zloty) do not give rise to significant exchange risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to Fortuna Group. Credit risk arises from cash and cash equivalents, trade receivables and loans.

From its core business substance, Fortuna Group's exposure to credit risk is limited since the vast majority of sales is carried out on the basis of prepayments made by customers. The marginal part of the pre-payments is executed by credit cards, where management adopts monitoring and credit control policy which minimise any credit risk exposure.

With respect to trade receivables related to other sales, Fortuna Group ensures that products and services are provided to customers with an appropriate creditworthy history. Risk control assesses the credit quality of customers taking into account financial position, past experience and other factors.

Fortuna Group's exposure to credit risk through the loans granted is limited since there are only intra-group loans and any third party lending is very rare.

Liquidity risk

Fortuna Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities.

Fortuna Group's policy on liquidity is to ensure that there are sufficient medium-term and long-term committed borrowing facilities to meet the medium-term funding requirements. At 31 December 2011, there were undrawn committed borrowing facilities of € 3,556 thousand (2010: € 6,214 thousand). Total committed facilities had an average maturity of 3 years in 2011 (2010: 4 years).

Prudent liquidity risk management implies maintaining sufficient cash and other liquid assets, the availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company's treasury maintains flexibility in funding.

The Company monitors the level of cash on a daily basis and draws cash from the bank when and if needed.

Liquidity risk profile

The table below summarises the maturity profile of Fortuna Group's financial liabilities at 31 December 2011 and 2010 based on contractual undiscounted payments:

As at 31 December 2011 € 000	< 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
Trade and other payables	15,650	-	-	-	15,650
Bank loans and finance lease	7,077	17,931	6,198	-	31,206
Related party loans	-	-	-	-	-
Derivatives (swaps)	813	936	-	-	1,748
Other non-current liabilities	-	-	-	-	-
	23,540	18,867	6,198	-	48,604

As at 31 December 2010 € 000	< 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
Trade and other payables	12,223	-	-	-	12,223
Bank loans and finance lease	6,208	12,551	13,938	-	32,697
Related party loans	-	-	-	-	-
Derivatives (swaps)	583	573	1,561	-	2,717
Other non-current liabilities	-	29	-	-	29
	19,014	13,153	15,499	-	47,666

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of Fortuna Group's profit before tax and equity (through the impact on floating rate borrowings):

€ 000	Increase in interest rate by	Effect on profit before tax
2011		
CZK	1%	121
EUR	1%	87
PLN	1%	-
		208
2010		
CZK	1%	94
EUR	1%	105
PLN	1%	-
		199

Foreign currency risk sensitivity

The following table demonstrates the sensitivity to a change in the foreign exchange rates, with all other variables held constant, of Fortuna Group's equity arising from the translation of the foreign operations:

As of 31 December 2011	
Increase in exchange rate by 1%	Effect on equity
€ 000	
CZK/EUR	498
PLN/EUR	23

As of 31 December 2010 Increase in exchange rate by 1% € 000	Effect on equity
CZK/EUR	127
PLN/EUR	35

Capital management

Capital includes equity attributable to the equity holders of the parent.

The primary objective of Fortuna Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

Fortuna Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, Fortuna Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Fortuna Group monitors capital using a gearing ratio defined as net debt divided by EBITDA.

Fortuna Group includes interest bearing short-term and long-term loans and borrowings less cash and cash equivalents in net debt. The Company defines EBITDA as net profit after tax from continuing operations before non-controlling interest, income tax, net financial costs, depreciation and amortisation and goodwill impairment.

Fortuna Group's policy is to keep the gearing ratio at a maximum range of 1.5–2.0.

€ 000	31.12.2011	31.12.2010
Interest bearing loans and borrowings:		
Long-term loans	22,573	24,115
Current portion of long-term loans	5,928	5,021
Short-term loans	–	–
	28,501	29,136
Less cash and cash equivalents	17,533	25,335
Net debt	10,968	3,801

€ 000	1.1.2011-31.12.2011	1.1.2010-31.12.2010
Profit before taxation from continuing operations	15,891	20,142
Finance costs, net	940	2,311
Goodwill impairment	–	–
Depreciation and amortisation	3,132	2,630
EBITDA	19,963	25,083
Gearing ratio	0.55	0.15

34. EVENTS AFTER THE BALANCE SHEET DATE

Effective 4 January 2012, FORTUNA sázková kancelář a.s. changed its name to Fortuna Loterie a.s.

On 24 January 2012 the company Fortuna zakłady bukmacherskie was granted a license from the Ministry of Finance for offering fixed-odds bets via the Internet. Betting on the results of sports games on-line has been possible from 25 January 2012. Fortuna zakłady bukmacherskie is the first bookmaker that offered legal on-line betting services to the Polish clients.

In the beginning of 2012 Fortuna zakłady bukmacherskie obtained permission from the Polish Minister of Finance to operate 80 new betting shops. Most of them were previously owned by Tipsport PL – a company controlled by TIPSPORT a.s. The acquisition enables Fortuna to expand its retail network in Poland to 474 shops and become the biggest Polish betting operator by the number of betting outlets.

In February 2012, Fortuna merged the marketing teams of sports betting and the lottery into one unit. The goal is to increase the efficiency of marketing activities and to further exploit synergies between the lottery and sports betting units of the Group.

The Company announced last year that in 2012 it plans to pay out a dividend of 70–100% of the 2011 net profit and confirmed this commitment in March 2012. The exact dividend amount will be proposed by the Management Board to shareholders at the AGM which is expected to take place in May 2012.

There have been following changes in members of Supervisory Board in Fortuna Loterie a.s. since 31 December 2011:

Supervisory Board

Pavel Volf

Member since 27 January 2012

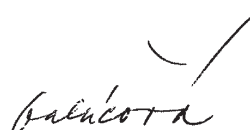
Changes are recorded in the Commercial register.

Amsterdam, 5 April 2012




Wilfred Thomas Walsh

Vice-chairman of the Management Board
of Fortuna Entertainment Group N.V.



Janka Galáčová

Member of the Management Board
of Fortuna Entertainment Group N.V.



Richard van Bruchem

Member of the Management Board
of Fortuna Entertainment Group N.V.



Jozef Janov

Chairman of the Supervisory Board
of Fortuna Entertainment Group N.V.




Marek Rendek

Member of the Supervisory Board
of Fortuna Entertainment Group N.V.



Václav Brož

Member of the Supervisory Board
of Fortuna Entertainment Group N.V.



Michal Horáček

Member of the Supervisory Board
of Fortuna Entertainment Group N.V.

11. CORPORATE FINANCIAL STATEMENTS OF FORTUNA ENTERTAINMENT GROUP N.V.

AS AT 31 DECEMBER 2011

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Statement of Financial Position as at 31 December 2011

€ 000	Notes	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Intangible assets	5	204	253
Property, plant and equipment	6	7	7
Investments in subsidiaries	7	181,992	138,517
Loans to group companies	8	–	41,344
Other fixed assets	9	21	27
Total non-current assets		182,224	180,148
Current assets			
Receivables from related parties	10	7,447	9,497
Prepayments and other current assets	11	65	90
Cash and cash equivalents	12	46	7,271
Total current assets		7,558	16,858
TOTAL ASSETS		189,782	197,006
EQUITY AND LIABILITIES			
Shareholders' equity			
	13		
Share capital		520	520
Share premium		133,385	133,385
Retained earnings		6,314	(455)
Profits for the year		15,995	22,369
Total Equity		156,214	155,819
Non-current liabilities			
	14		
Loans from group companies		30,565	40,619
Total non-current liabilities		30,565	40,619
Current liabilities			
Creditors	15	70	269
Loans from group companies	16	2,498	–
Payables to related parties		292	179
Accruals and other current liabilities	17	143	120
Total current liabilities		3,003	568
EQUITY AND LIABILITIES		189,782	197,006

Statement of Income for the Year Ended 31 December 2011

€ 000	Notes	2011	2010
Dividend income	18	17,436	23,639
Net royalty income		2	-
Revenues		17,438	23,639
Personnel expenses	19	(160)	(37)
Depreciation and amortisation	7	(50)	(50)
Other operating income	20	-	324
Other operating expenses	21	(558)	(228)
Operating profit		16,670	23,648
Finance income	22	1,348	722
Finance cost	23	(2,023)	(2,001)
Profit before tax		15,995	22,369
Income tax expense		-	-
Net profits for the year		15,995	22,369

Statement of Cash Flows for the Year Ended 31 December 2011

€ 000	31 December 2011	31 December 2010
Cash flows from operating activities		
Profit before tax	15,995	22,369
Adjustments for:		
Depreciation and amortisation	50	50
Exchange differences	(758)	-
Operating profit before working capital changes	15,287	22,419
(Increase) / Decrease in other current assets	25	(85)
(Increase) / Decrease in receivables	2,050	(9,358)
(Decrease) / Increase in payables and other liabilities	2,435	124
Cash generated from operating activities	19,797	13,100
Corporate income tax paid	-	-
Net cash flows provided by / (used in) operating activities	19,797	13,100
Cash flows from investing activities		
Related party loans receivable (granted)/repaid	491	(41,344)
Purchase of equipment and intangible fixed assets	(1)	(309)
Proceeds / (Acquisition) of other financial fixed assets	(1,858)	(27)
Net cash flows provided by / (used in) investing activities	(1,368)	(41,680)
Cash flows from financing activities:		
Proceeds from borrowings	(10,054)	40,619
Cash contribution by shareholder to acquire subsidiary companies	-	81,884
Payment to acquire subsidiary companies	-	(74,058)
Return of capital	-	(19,000)
Dividend paid	(15,600)	-
Proceeds from IPO	-	8,386
Incurred transaction cost capitalized	-	(2,009)
Net cash flows (used in) / provided by financing activities	(25,654)	35,822
Net increase / (decrease) in cash and cash equivalents	(7,225)	7,242
Cash and cash equivalents at the beginning of the year	7,271	29
Cash and cash equivalents at the end of the year	46	7,271

Statement of Changes in Equity for the Year Ended 31 December 2010 and 31 December 2011

€ 000	Share capital	Share premium	Retained earnings	Total
At 31 December 2009	45	64,599	(455)	64,189
Capital paid in and funding for acquisitions		81,884	-	81,884
Return of capital to shareholder	-	(19,000)	-	(19,000)
Increase share capital on 27 September 2010	455	(455)	-	-
Increase share capital on 28 October 2010	20	8,366	-	8,386
Capitalisation of IPO expenses	-	(2,009)	-	(2,009)
Profits for the year	-	-	22,369	22,369
At 31 December 2010	520	133,385	21,914	155,819
Dividend paid	-	-	(15,600)	(15,600)
Profits for the year	-	-	15,995	15,995
At 31 December 2011		133,385	22,309	156,214

Notes to the Financial Statements as at 31 December 2011

1. CORPORATE INFORMATION

The statutory financial statements for the year ended 31 December 2011 of Fortuna Entertainment Group N.V. ("FEGNV"), comprise the statements of financial position as at 31 December 2011 and 31 December 2010, the statements of income, statements of changes in equity and statements of cash flows for the years ended 31 December 2011 and 31 December 2010, and a summary of significant accounting policies and other explanatory notes.

The financial statements of FEGNV for the year ended 31 December 2011 were authorized for issue in accordance with a resolution of the directors on 5 April 2012. The Annual General Meeting to approve the financial statements is expected to take place in May 2012.

FEGNV has its registered office at Strawinskylaan 809, Amsterdam, the Netherlands. 67.26% of the shares of the Company are held by AIFELMONA HOLDINGS LIMITED having its registered office at Kyriakou Matsi, 16, EAGLE HOUSE, 10th floor, 1082, Nicosia, Cyprus. The previous shareholder of 67.26% of the shares was Penta Investments Limited ("Penta") having its registered office at Agias Fylaxeos & Polygnostou, 212, C&I Center, 2nd floor, 3082 Limassol, Cyprus. On 29 November 2011 Penta contributed its block of shares of FEGNV to its direct subsidiary AIFELMONA HOLDINGS LIMITED. The remaining 32.74% of shares are publically traded at the Polish stock exchange in Warsaw and the Czech stock exchange in Prague.

Description of business

FEGNV operates in the betting industry under local licences in Czech Republic, Slovakia and in Poland and via an online platform based in Malta targeting the market in Hungary and since May 2011 also Croatia. Sports betting is the key product of FEGNV with the most popular betting events being football, ice hockey and basketball. The odds are distributed to customers via retail chains in the Czech Republic, Slovakia and Poland and via online web sites in the Czech Republic, Slovakia and Hungary and since May 2011 also Croatia.

FEGNV has the following members of Management and Supervisory Board as at 31 December 2011:

Management Board	
Chairman:	Jiří Bunda *
Vice-Chairman:	Wilfred Walsh
Member:	Richard van Bruchem
Member:	Janka Galáčová

* Jiří Bunda resigned from his position of the Chairman of the Management Board effective from 31 December 2011.

Supervisory Board	
Chairman:	Jozef Janov
Member:	Marek Rendek
Member:	Václav Brož
Member:	Michal Horáček

2. BASIS OF PREPARATION

These statutory financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all applicable IFRS that have been adopted by the European Union and in accordance with Title 9 of Book 2 Dutch Civil Code. IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

The statutory financial statements have been prepared on a historical cost basis unless disclosed otherwise.

The statutory financial statements are presented in Euros and all values are rounded to the nearest thousand (€ 000) except when otherwise indicated.

The corporate financial statements do not include a statement of comprehensive income as there are no other comprehensive income items and total comprehensive income equals total result for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in preparing the statutory financial statements for the year ended 31 December 2011 are set out below.

3.1 Intangible assets

Intangible assets acquired separately are measured at cost and those acquired as part of a business combination are recognised separately from goodwill if the fair value can be measured reliably on initial recognition. The costs relating to internally generated intangible assets, principally software costs, are capitalised if the criteria for recognition as assets are met. Other internally generated intangible assets are not capitalised and expenditure is charged against profit in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. The straight-line amortisation method is used.

	Useful lives
Software	5 years

3.2 Property, plant and equipment

Property, plant and equipment and other fixed assets are stated at cost less accumulated depreciation and any impairment in value. Assets not yet in use are carried at cost and not depreciated. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	Useful lives
Office furniture and equipment	5 years

Impairment is recognized when carrying amount of an item of property, plant, or equipment exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

An item of property, plant and equipment and any significant part initially recognised is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

3.3 Recoverable amount of non-current assets

The carrying values of non-current assets with finite lives are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

For goodwill, and intangible assets that have indefinite useful lives, the recoverable amount is estimated at each balance sheet date.

The recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment losses are recognised in the statement of income in the depreciation line item. Assets and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

3.4 Cash at bank

Cash at bank in the statement of financial position represents bank balances and is carried at face value.

3.5 Investments in subsidiaries

Investments in subsidiaries are stated at cost less a provision for impairment, if any.

3.6 Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. FEGNV determines the classification of its financial assets on initial recognition.

Trade receivables are generally accounted for at amortised cost. Fortuna Group reviews indicators of impairment on an ongoing basis and where indicators exist, Fortuna Group makes an estimate of the assets' recoverable amounts.

3.7 Financial liabilities

Financial liabilities comprise interest bearing loans and borrowings. On initial recognition, financial liabilities are measured at fair value less transaction costs where they are not categorised as financial liabilities at fair value through profit or loss. Except for derivative financial instruments, Fortuna Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs taken directly to the statement of income. Subsequently, the fair values are re-measured and gains and losses from changes therein are recognised in the statement of income.

3.8 De-recognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- Fortuna Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) Fortuna Group has transferred substantially all the risks and rewards of the asset, or (b) Fortuna Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Fortuna Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Fortuna Group's continuing involvement in the asset. In that case, Fortuna Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Fortuna Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Fortuna Group could be required to repay.

3.9 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

EIR amortisation is included in finance income in the statement of income. The losses arising from impairment are recognised in the statement of income in finance costs.

3.10 Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of income.

3.11 Foreign currency translation

The presentation and functional currency of FEGNV is the Euro ("EUR" or "€").

Transactions in foreign currencies are initially recorded in the functional currency at the foreign currency rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign currency rate of exchange ruling at the balance sheet date. All differences are taken to the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

3.12 Expenses

Costs and expenses are allocated to the year to which they relate. Losses are recognized in the year in which they are identified.

3.13 Contingencies

Contingent assets are not recognised in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognised in the financial statements. They are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote.

3.14 Future accounting developments

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that Fortuna Group reasonably expects to be applicable at a future date. Fortuna Group intends to adopt those standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group does not expect any impact on its financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group does not expect any impact on its financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group does not expect any impact on its financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The Group does not expect that adoption of the first phase of IFRS 9 will have any impact on its financial position or performance.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

The Group does not expect any impact on its financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The application of this new standard will not impact the financial position of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The amendment affects presentation only and has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group does not expect any impact on its financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

4. USE OF ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgements

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates

The key assumptions concerning future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

4.1 Recoverable amount of receivables

Where there are indicators that any receivable is impaired at a balance sheet date, management makes an estimate of the asset's recoverable amount. Further details are given in Note 3.3.

5. INTANGIBLE FIXED ASSETS

€ 000	Software	Other intangible fixed assets	Intangible fixed assets not yet in use	Total
Cost:				
As at 1 January 2011	242	-	61	303
Additions	-	-	-	-
Disposals	-	-	-	-
As at 31 December 2011	242	-	61	303
Accumulated amortisation:				
As at 1 January 2011	50	-	-	50
Additions	49	-	-	49
Disposals	-	-	-	-
As at 31 December 2011	99	-	-	99
Carrying amount at 31 December 2011	143	-	61	204
Carrying amount at 1 January 2011	192	-	61	253

The Company entered into a contract with Virtual Racing Systems Limited, the supplier of the software. The contract has an duration of 5 years, resulting in an amortisation rate of 20%. An amount of € 61 thousand relating to software licences was not yet in use as at 31 December 2011.

6. PROPERTY, PLANT AND EQUIPMENT

€ 000	Plant and equipment	Other assets	Total
Cost:			
As at 1 January 2011	-	7	7
Additions	-	2	2
Disposals	-	-	-
As at 31 December 2011	-	9	9
Accumulated amortisation:			
As at 1 January 2011	-	-	-
Additions	-	2	2
Disposals	-	-	-
As at 31 December 2011	-	2	2
Carrying amount at 31 December 2011	-	7	7
Carrying amount at 1 January 2011	-	7	7

Amortization started in 2011, the amortization rate of office furniture and equipment is set to 20%.

7. INVESTMENTS IN SUBSIDIARIES

FEENV held following subsidiaries as at 31 December 2011:

Entity name € 000	Country of incorporation	Percentage held 31.12.2011	Principal Activity	Historic cost	Carrying amount 31.12.2011
Cost:					
(ii) Fortunawin Ltd	Malta	99.99%	Entertainment	2,485	2,485
(iii) Riverhill a.s.	Czech Republic	100%	Holding	105,977	105,977
(iv) Fortuna SK, a.s.	Slovak Republic	100%	Entertainment	70,000	70,000
(v) ibet, s.r.o.	Czech Republic	100%	Entertainment	500	500
(vi) Fortuna zakłady bukmacherskie Sp. z o.o.	Poland	33%	Entertainment	3,030	3,030
				181,992	181,992

Movements in investments in subsidiaries

Movements 2010 € 000	As at 1.1.2010	Acquisition share capital	Additions share premium	Disposals	Total
Cost:					
(i) Fortuna Sportska Kladionica d.o.o.	-	-	-	-	-
(ii) Fortunawin Ltd	100	-	1,020	-	1,120
(iii) Riverhill a.s.	64,359	-	-	-	64,359
(iv) Fortuna SK, a.s.	-	70,000	-	-	70,000
(v) ibet, s.r.o.	-	8	-	-	8
(vi) Fortuna zakłady bukmacherskie Sp. z o.o.	-	3,030	-	-	3,030
As at 31 December 2010	64,459	73,038	1,020	-	138,517

Movements 2011 € 000	As at 1.1.2011	Acquisition share capital	Additions share premium	Disposals	Total
Cost:					
(i) Fortuna Sportska Kladionica d.o.o.	-	-	-	-	-
(ii) Fortunawin Ltd	1,120	-	1,365	-	2,485
(iii) Riverhill a.s.	64,359	41,618	-	-	105,977
(iv) Fortuna SK, a.s.	70,000	-	-	-	70,000
(v) ibet, s.r.o.	8	-	492	-	500
(vi) Fortuna zakłady bukmacherskie Sp. z o.o.	3,030	-	-	-	3,030
As at 31 December 2011	138,517	41,618	1,857	-	181,992

(i) Fortuna Sportska Kladionica d.o.o.

On 17 December 2009 the Company acquired a 90% shareholding interest in Fortuna Sportska Kladionica d.o.o., with registered offices at Zagreb, Croatia from a related company Equinox Investments B.V., Amsterdam, the Netherlands for a consideration of € 1. The other 10% of the share capital is held by a third party.

At 31 December 2009 the shares were divided and held as follows:

Shareholder	Nominal value %	Share in Kuna	in €
FEG N.V.	90%	2,700,000 HRK	369,549
Third party	10%	300,000 HRK	41,061
Total	100%	3,000,000 HRK	410,610

In March 2010 Fortuna Sportska Kladionica d.o.o. was sold back to Equinox Investments B.V. for a consideration of € 1.

In September 2010, FEG entered into an agreement with Equinox Investments B.V., under which it had a call option for all shares in Fortuna HR held by Equinox Investments B.V. The option could be exercised within the three-year period starting from 1 July 2011, provided that Fortuna HR reported positive recurring EBITDA for three consecutive quarters. The purchase price was set at EUR 1 and the net debt (understood as interest bearing debts, including any shareholder loans, minus cash and cash equivalents, excluding restricted cash) at the date of transfer of the shares in Fortuna HR should not exceed EUR 12 million. In case the net debt exceeds EUR 12 million at the date of exercise of the option, Equinox Investments B.V. should capitalize Fortuna HR to decrease the net debt to the amount of EUR 12 million. In addition, FEG had a right of first refusal which entitles it to purchase shares in Fortuna HR for the amount offered by a third party wishing to acquire shares in Fortuna HR. In case FEG does not acquire shares in Fortuna HR for the indicated amount, Equinox Investments B.V. may sell the shares in Fortuna HR to such a third party and the call option expires with respect to the shares sold to the third party.

The fair value of option was nil and was included on Fortuna's statement of financial position. The option was revalued on a quarterly basis and potential movements in the fair value of the option flew through the statement of income of FEG.

On 3 August 2011, the Management Board of Fortuna Entertainment Group NV received a notice from Equinox Investments B.V. inviting FEG to exercise its right to purchase shares in Fortuna HR pursuant to offer from an unnamed third party. The Management Board of Fortuna Entertainment Group NV decided not to exercise the option and informed Equinox Investments B.V. accordingly. As a result of that, FEG is no longer entitled to purchase shares in Fortuna HR and the option ceased to be included on Fortuna's statements.

(ii) Fortunawin Limited

On 4 December 2009 the Company founded Fortunawin Ltd based in Malta. Fortunawin Ltd mainly act as a holding and finance company for other companies active in the field of the gaming industry.

At 31 December 2011 the shares are divided as follows:

Shareholder	% held	# of shares	Nominal value € per share	Total €
FEG N.V.	99,99%	9,999	10	99,990
Other party	0,01%	1	10	10
Total	100%	10,000		100,000

The net asset value of Fortunawin Limited as at 31 December 2011 amounts to € 1,190 thousand.

(iii) Riverhill, a.s.

On 17 December 2009 the Company acquired 100% of the registered capital of Riverhill, a.s., based in Prague, Czech Republic (hereinafter "Riverhill") from a related party Gratio Holdings Ltd, based in Cyprus. The purchase price amounted to € 64,359 thousand and was in compliance with an evaluation made by an independent expert. Riverhill is active as a holding company for companies active in the betting industry.

In January 2011 Fortuna Entertainment Group N.V. ("FEGNV") increased share capital in its subsidiary RIVERHILL a.s. by 1,025,000 thousands CZK (41,618 thousands EUR) by non-monetary contribution of receivable from ALICELA a.s.

At 31 December 2011 the shares are divided as follows:

Type of shares	Series	% held	# of shares	Nominal value per share CZK 000	Total CZK 000	Total € 000
Certificated Bearer	Shares 1	100%	10	200	2,000	76
Ordinary cert. Bearer	Shares 2	100%	25	10,000	250,000	9,446
Ordinary cert. Bearer	Shares 3	100%	102	10,000	1,020,000	39,978
Ordinary cert. Bearer	Shares 3	100%	1	4,500	4,500	176
Ordinary cert. Bearer	Shares 3	100%	1	500	500	20
			139		1,277,000	49,696

All shares held by the Company are pledged to the Czech bank Ceska Sporitelna, a.s.

The net asset value of Riverhill as at 31 December 2011 amounts to CZK 1.305.041 thousand (€ 51,150 thousand).

(iv) Fortuna SK, a.s.

On 27 January 2010 the Company acquired 100% of the registered capital of Fortuna SK, a.s., based in Bratislava, Slovak Republic (hereinafter "FSK") from the principal shareholder Penta Investments Ltd, based in Cyprus. The purchase price amounted to € 70,000 thousand and was in compliance with an evaluation made by an independent expert. FSK is active as a company active in the gaming industry.

At 31 December 2011 the shares are divided as follows:

Type of shares	Series	% held	# of shares	Nominal value per share €	Nominal value Total € 000	Acquisition price € 000
Book-entered, common	A	100%	18	332	6	1,260
Book-entered, common	B	100%	20	34	1	143
Book-entered, common	C	100%	98	3,320	325	68,597
			136		332	70,000

The net asset value of FSK as at 31 December 2011 amounts to € 9.801 thousand.

(v) ibet, s.r.o.

ibet, s.r.o. was established on 17 February 2010 by FEGNV. The registered share capital amounts to CZK 200 thousand of which FEGNV holds 100%.

The net asset value of ibet, s.r.o. as at 31 December 2011 amounts to CZK 8.125 thousand (€ 318 thousand). The subsidiary made a loss in 2011 of CZK 2.795 thousand (€ 110 thousand).

(vi) Fortuna zakłady bukmacherskie Sp. z o.o.

Pursuant an Share Purchase Agreement dated 12 May 2010 between Penta Investment Limited, Massarosa Holdings Limited and Lunga Enterprises Limited (the "sellers") and FEGNV and her subsidiaries Fortuna sázková kancelář a.s. and Fortuna Game a.s. on the other hand (the "Buyers"), 100% of the outstanding shares in the Polish based company Fortuna zakłady bukmacherskie Sp. z o.o. (hereinafter "FZB") consisting of 26,400 ordinary shares with a nominal value of PLN 90 were acquired by the FEG Group. FEGNV acquired the shares held by Penta Investments Limited representing 33.3% of the shares in FZB. Together with Polish stamp duty of PLN 119,700 (€ 30,189) the total acquisition price of the FEGNV shares amounted to € 3,030,189.

At 31 December 2011 the shares are divided and held as follows:

Company	Nominal value		# of shares	% held
	Per share PLN	Total PLN		
Fortuna Entertainment Group NV	90	792,000	8,800	33%
Fortuna sázková kancelář a.s.	90	792,000	8,800	33%
Fortuna GAME a.s.	90	792,000	8,800	33%
		2,376,000	26,400	100%

The net asset value of FZB as at 31 December 2011 amounts to PLN 10,308 thousand (€ 2,246 thousand).

8. LOANS TO GROUP COMPANIES

Movements in the loans during 2010:

€ 000	Alicela a.s.	ibet, s.r.o.	Total
As at 1 January 2010	-	-	-
Additions	40,232	432	40,664
Interest	36	24	60
Currency translation	613	7	620
As at 31 December 2010	40,881	463	41,344

Movements in the loans during 2011:

€ 000	Alicela a.s.	ibet, s.r.o.	Total
As at 1 January 2011	40,881	463	41,344
Interest	-	13	13
Repayments	(41,597)	(491)	(42,088)
Currency translation	716	15	731
As at 31 December 2011	-	-	-

Movements in the loans during 2010 in originating currencies (CZK thousand):

CZK 000	Alicela a.s.	ibet, s.r.o.	Total
As at 1 January 2010	-	-	-
Additions	1,023,600	11,000	1,034,600
Interest	922	601	1,523
As at 31 December 2010	1,024,522	11,601	1,036,123

Movements in the loans during 2011 in originating currencies (CZK thousand):

CZK 000	Alicela a.s.	ibet, s.r.o.	Total
As at 1 January 2011	1,024,522	11,601	1,036,123
Interest	3	321	324
Repayments	(1,024,525)	(11,922)	(1,036,447)
As at 31 December 2011	-	-	-

Details of loans provided:

Company	Facility	Starting date	Original Exp date	Effective average interest %
CZK 000				
Alicela a.s.	CZK 1,025,000	24.Mar.10	30.Sep.15	0.010%
ibet, s.r.o.	CZK 11,000	22.Mar.10	30.Sep.15	7.00%

The original interest rate of the loan to Alicela was set to 6,75%, but was shortly after reduced to 0,010% in the framework of the intended conversion of the loan into equity. In January 2011 Fortuna Entertainment Group N.V. ("FEGNV") increased share capital in its subsidiary RIVERHILL a.s. by CZK 1,024,522 thousand (€ 40,902 thousand) by non-monetary contribution of receivable from ALICEA a.s. RIVERHILL a.s. increased share capital in its subsidiary ALICEA a.s. by CZK 1,024,522 thousand (€ 40,902 thousand) by setting-off receivable from ALICEA a.s. with its payable from share capital increase. All changes are recorded in the Commercial register.

In May 2011 Fortuna Entertainment Group N.V. ("FEGNV") granted additional amount outside the registered capital of the company ibet, s.r.o. (i.e. in addition to investment contribution the sole member made to the registered capital of the company ibet, s.r.o.) in the amount of CZK 12,000,000.

9. OTHER FIXED ASSETS

€ 000	2011	2010
As at 1 January	27	-
Guarantee fee office	-	3
Prepaid IPO insurance	(6)	24
As at 31 December	21	27

FEGNV paid a premium for an insurance in the amount of € 30 thousand. This premium covers 5 years starting December 1, 2010 and is therefore amortised over a period of 5 years. The release in 2011 was € 6,000. From the remaining outstanding amount of € 6 thousand (12 x € 500) relates to the next twelve months and is accounted for under prepayments and other current assets.

10. RECEIVABLES FROM RELATED PARTIES

€ 000	Notes	2011	2010
Dividend receivable Riverhill, a.s.	(i)	7,447	9,488
Receivable Fortuna HR	(ii)	-	9
As at 31 December		7,447	9,497

(i) In 2010 the Articles of Association of the subsidiary Riverhill, a.s. were changed. As a result the financial year of the subsidiary runs from 1 October to 30 September and ended on 30 September 2010. Through a Resolution dated 10 December 2010 the accounts were approved and it was resolved to pay out a dividend over the financial year 2010 of CZK 237,738 thousand (€ 9,488 thousand). The dividend was paid during 2011. The dividend over the financial year 2011 of CZK 190,000 thousand (€ 7,447 thousand) shall be payable no later than 31 July 2012.

(ii) This concerns an amount of € 9 thousand of licence fees recharged to Fortuna Sportska Kladionica d.o.o (Croatia) a related company.

11. PREPAYMENTS AND OTHER CURRENT ASSETS

These consist of the following:

€ 000	2011	2010
Debtor (Favorit Sportska Kladionica d.o.o)	23	-
Prepayments to creditors	3	51
Czech VAT receivable	8	8
Dutch VAT receivable	2	18
Prepaid rent office	3	3
Prepaid IPO insurance	6	6
Deferred interest deposit ABN AMRO	-	3
Other	14	1
As at 31 December	59	90

12. CASH AND CASH EQUIVALENTS

€ 000	2011	2010
Cash at banks	46	466
Short term deposits	-	6,805
As at 31 December	46	7,271

In the total amount of cash at banks is included an amount of € 26 thousand (2010: € 12 thousand) outstanding at Privatbanka, a.s., a related company.

13. SHAREHOLDERS' EQUITY

Authorized shares

	2011 # of shares thousands	2010 # of shares thousands
Ordinary shares of € 0,01 each	250,000	250,000
As at 31 December	250,000	250,000

On 27 September 2010 the Articles of Association of FEGNV were amended. The number of authorized ordinary shares was increased from 22,500 shares to 250,000,000 and the nominal value of authorized shares was decreased from € 10 per share to € 0.01 per share. At the same time FEGNV issued 45,500,000 additional bearer shares which were all acquired by Penta Investments Ltd.

On 28 October 2010 FEGNV issued an additional 2,000,000 ordinary bearer shares, which were floated at the Polish stock exchange at Warsaw.

Ordinary shares issued and fully paid

	# of shares thousand	Par value per share €	Share capital € 000
As at 31 December 2009	4.5	10	45
27 September 2010 – decrease of the nominal value of existing shares from € 10 per share to € 0.01 per share	4,500	0.01	45
27 September 2010 – issue of ordinary bearer shares	45,500	0.01	455
28 October 2010 – issue of ordinary bearer shares	2,000	0.01	20
As at 31 December 2010	52,000	0.01	520
As at 31 December 2010	52,000	0.01	520
No movements during 2011	-	-	-
As at 31 December 2011	52,000	0.01	520

Shareholders equity and current year results

The difference between equity reported in the consolidated financial statements and equity reported in the corporate financial statements results from valuing the investments at costs in the corporate financial statements, whereas in the consolidated financial statements results of the subsidiaries are fully reflected. Below schedules provide an overview of the differences.

Movements in the difference between the corporate and the consolidated equity and profit in the financial year 2011 are as follows:

	Share premium	Net assets attributable to combined entities' shareholder	Statutory reserves	Retained earnings	Foreign exchange translation reserve	Total
€ 000						
1 January 2011	107,443	-	(3,004)	1,020	(1,647)	103,812
Profits for the year	-	-	-	2,675	-	2,675
Other comprehensive income	-	-	-	20	3,005	3,025
Statutory reserve movement	-	-	(498)	498	-	-
31 December 2011	107,443	-	(3,502)	4,213	1,358	109,512

Difference in equity:

€ 000	
Equity according to consolidated financial statements	46,702
Continuing operations impact:	
Opening net assets of participants as at 1/1/2007	5,290
Capital contribution into Riverhill in 2007 by Penta group (Slovenské investičné družstvo)	(9,003)
Dividend paid to Penta Investments Limited in 2008-2009	2,010
Acquisition of subsidiaries by FEGNV	143,556
Results from participants in 2007-2009, attributable to combined entities shareholder	(41,660)
Results from participants in 2010	(17,159)
Results from participants (continuing operations) including IFRS adjustments in 2011 included in consolidation	(12,942)
Other comprehensive income	1,648
Net intragroup income of FEGNV eliminated in consolidated financial statements 2010	22,155
Net intragroup income of FEGNV eliminated in consolidated financial statements 2011	15,617
Difference in equity attributable to continuing operations	109,512
Discontinued operations impact:	
Acquisition of Croatian entity by FEGNV in 2008	(7,631)
Loss of Croatian entity in 2008-2009, attributable to combined entities shareholder	10,379
Loss of Croatian entity in 1-3/2010 until disposed on 26 March 2010	1,286
Profit on disposal of Croatian entity	(4,171)
Other comprehensive income	137
Difference in equity attributable to discontinued operations	0
Equity according to corporate financial statements	156,214

Difference in profit:

€ 000	
Profit according to consolidated financial statements	13,320
Results from participants, continuing operations	(12,942)
Net intragroup income of FEGNV eliminated in consolidated financial statements	15,617
Profit according to corporate financial statements	15,995

14. NON-CURRENT LIABILITIES

FEGNV received loans from the following subsidiaries:

Fortuna SK, a.s. (hereinafter "FSK")

Fortuna zakłady bukmacherskie Sp. z o.o. (hereinafter "FZB")

FORTUNA sázková kancelář a.s. (hereinafter "FCZ", with effect from 4 January 2012 re-named to Fortuna Loterie a.s.)

Fortuna Game, a.s. (hereinafter "FG")

The following facilities were obtained:

Company	Facility in € 000	Facility in CZK 000	Starting date	Expiration date	Effective average interest %
FSK	10,000		22.Mar.10	30.Sep.15	7,00%
FCZ	6,000		25.Mar.10	30.Sep.15	4,67% *
FCZ		450,000	24.Mar.10	30.Sep.15	4,55% **
FG	7,000		24.Mar.10	30.Sep.15	4,67% *
FG		150,000	24.Mar.10	30.Sep.15	4,55% **
FG	10,000		04.Oct.11	30.Apr.13	4,53% *
Total facilities	33,000	600,000			

* The facility bears an interest of 3 month EURIBOR + 335 points.

** The facility bears an interest of 3 month PRIBOR + 335 points.

Movements in the loan facilities during 2010:

€ 000	Fortuna SK	Fortuna ZB	Fortuna CZ	Fortuna Game	Total
As at 1 January 2010	-	-	-	-	-
Additions	9,649	1,871	15,471	11,831	38,822
Interest	527	98	554	413	1,592
Repayments	-	-	-	-	-
Currency translation	-	(33)	155	83	205
As at 31 December 2010	10,176	1,936	16,180	12,327	40,619

Movements in the loan facilities during 2011:

€ 000	Fortuna SK	Fortuna ZB	Fortuna CZ	Fortuna Game	Total
As at 1 January 2011	10,176	1,936	16,180	12,327	40,619
Additions	-	-	-	320	320
Interest	624	48	523	566	1,761
Repayments	(2,000)	(2,001)	(8,203)	-	(12,204)
Currency translation	-	17	163	(111)	69
As at 31 December 2011	8,800	-	8,663	13,102	30,565

Movements in the loans during 2010 in originating currencies:

	Fortuna SK € 000	Fortuna ZB PLN 000	Fortuna CZ CZK 000	Fortuna CZ € 000	Fortuna Game CZK 000	Fortuna Game € 000
As at 1 January 2010	-	-	-	-	-	-
Additions	9,649	7,300	256,246	5,400	138,211	6,400
Interest	527	395	9,449	177	5,096	210
Repayments	-	-	-	-	-	-
Currency translation	-	-	-	-	-	-
As at 31 December 2010	10,176	7,695	265,695	5,577	143,307	6,610

Movements in the loans during 2011 in originating currencies:

	Fortuna SK € 000	Fortuna ZB PLN 000	Fortuna CZ CZK 000	Fortuna CZ € 000	Fortuna Game CZK 000	Fortuna Game € 000
As at 1 January 2011	10,176	7,695	265,695	5,577	143,307	6,610
Additions	-	-	-	-	-	320
Interest	624	190	6,537	255	6,379	305
Repayments	(2,000)	(7,885)	(200,000)	-	-	-
Currency translation	-	-	-	-	-	-
As at 31 December 2011	8,800	-	72,232	5,832	149,686	7,235

15. CREDITORS

€ 000	2011	2010
Third party creditors	70	269
	70	269

As at 31 December 2011 the creditors were denominated in the following currencies:

	In local currency	Equivalent in € 000
Euro	63	63
Czech Kroner	153	6
Polish zloty	2	1
		70

16. PAYABLES TO RELATED PARTIES

These consist of the following:

€ 000	2011	2010
Loan Riverhill a.s.	2,498	-
Current account shareholder Penta Investments Limited	16	1
AERO Vodochody, a.s.	0	6
Avis Accounting B.V.	4	-
Fortuna Game a.s.	233	0
Fortuna Sazkova Kancelar a.s.	39	172
As at 31 December	2,790	179

17. ACCRUALS AND OTHER CURRENT LIABILITIES

These consist of the following:

€ 000	2011	2010
Salary withholding taxes	10	7
Accrual audit expenses	77	77
Accrual other consultancy and administrative expenses	30	27
Salaries payable	23	8
Vacation benefits	1	1
Other	2	-
As at 31 December	143	120

18. DIVIDEND INCOME

In 2010 FEGNV received the following dividends from subsidiaries:

Company	Resolution date	Relating to year/ period		Local currency amount	Total € 000
Fortuna SK, a.s.	12.03.10	2009	€	14,151	14,151
Riverhill a.s.	30.11.10	Jan-Sept. 2010	CZK	237,739	9,488
					23,639

In 2011 FEGNV received the following dividends from subsidiaries:

Company	Resolution date	Relating to year/ period		Local currency amount	Total € 000
Fortuna SK, a.s.	10.05.2011	2010	€	9,312	9,312
Furtuna zakłady bukmacherskie Sp. z o.o.	31.5.2011	2009, 2010	PLN	2,667	677
Riverhill a.s.	14.12.2011	2011	CZK	190,000	7,447
					17,436

19. PERSONNEL EXPENSES

The personnel expenses in 2010 were as follows:

€ 000	Staff	Directors	Total
Salaries/ wages	17	15	32
Social security charges	2	2	4
Other payroll costs incl recharge	1	-	1
	20	17	37

The personnel expenses in 2011 were as follows:

€ 000	Staff	Directors	Total
Salaries/ wages	15	80	95
Social security charges	2	10	12
Other payroll costs, incl recharge	53	-	53
	70	90	160

In 2011 and 2010 a full time equivalent of 1 person was employed by FEGNV. At 31 December 2011 the Company employed 4 part time managing directors (2010: 4) and 4 supervisory directors (2010: 4).

20. OTHER OPERATING INCOME

These consist of the following:

€ 000	31.12.2011	31.12.2010
Revenue website development	-	191
Revenue licence fees	-	133
	-	324

Revenue related to website development and license fees consist of a cross charge to subsidiaries.

21. OTHER OPERATING EXPENSES

These consist of the following:

€ 000	31.12.2011	31.12.2010
Expenses website development	-	170
Expenses licence fees	36	130
Consultancy expenses	307	67
External auditor expenses	134	77
Other expenses	81	(216)
	558	228

22. FINANCE INCOME

These consist of the following:

€ 000	31.12.2011	31.12.2010
Interest income loans to subsidiaries	13	60
Exchange rate gains on CZK loans to subsidiaries	1,033	620
Exchange rate gains on PLN loan to subsidiary	-	33
Exchange rate gains on CZK loans from subsidiaries	228	-
Interest income banks and other	74	9
	1,348	722

23. FINANCE COST

These consist of the following:

€ 000	31.12.2011	31.12.2010
Interest expenses loans from subsidiaries	1,829	1,592
Exchange rate loss on CZK loans from subsidiaries	165	238
Exchange rate loss on PLN loan from subsidiary	17	-
Exchange rate losses banks and other	9	166
Banking expenses	3	5
	2,023	2,001

24. RELATED PARTY DISCLOSURES

As at 31 December 2011 the FEG Group consisted of the following entities, which are held as follows:

	% held
Penta Investment Limited	
Aifelmona Holdings Limited	100
FORTUNA Entertainment Group N.V.	67,26
FORTUNA SK, a.s.	100.00
FORTUNA Real, s.r.o.	100.00
FORTUNA zakłady bukmacherskie Sp. z o.o.	33.33
FortunaWin Ltd	99.99
FortunaWin Gaming Ltd	99.99
ibet, s.r.o.	100.00
Riverhill a.s.	100.00
ALICELA a.s.	100.00
FORTUNA sázková kancelář a.s.	100.00
Fortuna zakłady bukmacherskie Sp. z o.o.	33,33
FORTUNA GAME a.s.	100.00
FORTUNA software s.r.o.	100.00
FORTUNA zakłady bukmacherskie Sp. z o.o.	33,33
FORTUNA RENT s.r.o.	100.00
FORTUNA sázky a.s.	100.00

Fortuna sazkova kancelar a.s. is effective 4.1.2012 renamed to Fortuna Loterie a.s.

The following table lists the total amounts relating to transaction entered into with Group companies and other related parties for the relevant financial year:

€ 000	31.12.2011	31.12.2010
Receivables from related parties		
Riverhill a.s.	7,447	9,488
Fortuna Sportska Kladionica, d.o.o	-	9
	7,447	9,497
Loans to related parties		
Alicela a.s.	-	40,381
ibet, s.r.o.	-	463
	-	41,344
Cash in related parties		
Privatbanka, a.s.	26	12
	26	12
Share premium donations to related parties		
Fortunawin Limited	1,365	1,020
ibet s.r.o.	492	-
	1,857	1,020
Acquisitions from related parties		
Penta Investments Limited	-	73,000
	-	73,000

€ 000	31.12.2011	31.12.2010
Payables to related parties		
Loan Riverhill a.s.	2,498	-
Penta Investments Limited	16	1
AERO Vodochody, a.s.	-	6
Avis Accounting B.V.	4	-
Fortuna Game a.s.	233	-
Fortuna sázková kancelář, a.s.	39	172
	2,790	179
Loans from related parties		
Fortuna SK, a.s.	8,800	10,176
Fortuna zakłady bukmacherskie Sp. z o.o.	-	1,936
Fortuna sázková kancelář a.s.	8,663	16,180
Fortuna Game a.s.	13,102	12,327
	30,565	40,619
Other income from related parties		
Fortuna Sportska Kladionica d.o.o.	-	9
Fortuna sázková kancelář a.s.	-	124
Fortunawin Limited	-	191
	-	324
Interest from related parties		
Alicela a.s.	-	36
ibet, s.r.o.	13	24
Privatbanka, a.s.	4	5
	17	65
Dividend from related parties		
Fortuna SK, a.s.	9,312	14,151
Fortuna zakłady bukmacherskie Sp. z o.o.	677	-
Riverhill a.s.	7,447	9,488
	17,436	23,639
Other expenses related parties		
AERO Vodochody, a.s.	-	11
Fortuna sázková kancelář a.s.	63	107
Predict Performance Improvement Ltd	73	-
Avis Accounting B.V.	21	-
Privatbanka, a.s.	1	1
	158	119
Interest to related parties		
Fortuna SK, a.s.	624	527
Fortuna zakłady bukmacherskie Sp. z o.o.	48	98
Riverhill a.s.	69	-
Fortuna sázková kancelář a.s.	523	554
Fortuna Game a.s.	565	413
	1,829	1,592
Other financial expenses related parties		
Privatbanka, a.s.	-	4
	-	4

Remuneration

Management Board € 000	Board remuneration	Salaries and other similar income	Management Bonus	TOTAL
Jiří Bunda				
2011	1	-	-	1
2010	-	-	-	-
Janka Galáčová				
2011	8	17	-	25
2010	3	19	-	22
Wilfred Thomas Walsh				
2011	23	-	-	23
2010	8	-	-	8
Richard van Bruchem				
2011	18	-	-	18
2010	6	-	-	6
TOTAL 2011	50	17	-	67
TOTAL 2010	17	19	-	36

Supervisory Board € 000	Board remuneration	Salaries and other similar income	Management Bonus	TOTAL
Jozef Janov				
2011	2	-	-	2
2010	-	-	-	-
Martin Kúšik				
2011	1	-	-	1
2010	-	-	-	-
Václav Brož				
2011	2	-	-	2
2010	-	-	-	-
Michal Horáček				
2011	20	-	-	20
2010	-	-	-	-
Marek Rendek				
2011	15	-	-	15
2010	-	-	-	-
TOTAL 2011	40	-	-	40
TOTAL 2010	-	-	-	-

Expenses of Fortuna's group related to external auditor's services in year 2011

€ 000	Audit	Other	Total
Fortuna Entertainment Group NV	135	–	135
Other companies within Fortuna Group	171	–	171
TOTAL	306	–	306

25. CONTINGENT LIABILITIES

All shares of Riverhill, a.s. by held the Company are pledged to the Czech bank Ceska Sporitelna, a.s.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

FEGNV's principal financial instruments comprise cash, receivables from group companies and loans drawn from group companies.

FEGNV is exposed to market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to FEGNV. Credit risk arises from cash and cash equivalents, trade receivables and loans.

FEGNV exposure to credit risk through the trade receivables and loans granted is limited since there are only intra-group loans and any third party lending is very rare.

Liquidity risk

As FEGNV is a holding company and does not generate autonomous income, the primary source of liquidity will continue to be cash generated from its operating entities as well as existing cash.

Capital management

The primary objective of FEGNV capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

FEGNV manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, Fortuna Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

27. OTHER INFORMATION

Appropriation of result according to the articles of association

The profit of the year is at the disposal of the General Meeting of Shareholders. The profit is available for distribution as far as the shareholders equity exceeds the issued part of the paid in share capital plus the legal reserves.

Post balance sheet events

Effective 4 January 2012, FORTUNA sázková kancelář a.s. changed its name to Fortuna Loterie a.s.

On 24 January 2012 the company Fortuna zakłady bukmacherskie was granted a license from the Ministry of Finance for offering fixed-odds bets via the Internet. Betting on the results of sports games on-line has been possible from 25 January 2012. Fortuna zakłady bukmacherskie is the first bookmaker that offered legal on-line betting services to the Polish clients.

In the beginning of 2012 Fortuna zakłady bukmacherskie obtained permission from the Polish Minister of Finance to operate 80 new betting shops. Most of them were previously owned by Tipsport PL – a company controlled by TIPSPORT a.s. The acquisition enables Fortuna to expand its retail network in Poland to 474 shops and become the biggest Polish betting operator by the number of betting outlets.

In February 2012, Fortuna merged the marketing teams of sports betting and the lottery into one unit. The goal is to increase the efficiency of marketing activities and to further exploit synergies between the lottery and sports betting units of the Group.

The Company announced last year that in 2012 it plans to pay out a dividend of 70–100% of the 2011 net profit and confirmed this commitment in March 2012. The exact dividend amount will be proposed by the Management Board to shareholders at the AGM which is expected to take place in May 2012.

There have been following changes in members of Supervisory Board in Fortuna Loterie a.s. since 31 December 2011:

Supervisory Board

Pavel Volf

Member since 27 January 2012

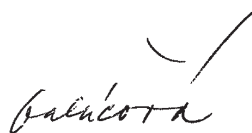
Changes are recorded in the Commercial register.

Amsterdam, 5 April 2012



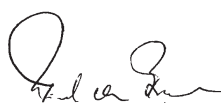
Wilfred Thomas Walsh

Vice-chairman of the Management Board
of Fortuna Entertainment Group N.V.



Janka Galáčová

Member of the Management Board
of Fortuna Entertainment Group N.V.



Richard van Bruchem

Member of the Management Board
of Fortuna Entertainment Group N.V.



Jozef Janov

Chairman of the Supervisory Board
of Fortuna Entertainment Group N.V.



Marek Rendek

Member of the Supervisory Board
of Fortuna Entertainment Group N.V.



Václav Brož

Member of the Supervisory Board
of Fortuna Entertainment Group N.V.



Michal Horáček

Member of the Supervisory Board
of Fortuna Entertainment Group N.V.

Defined Terms

"AIFELMONA HOLDINGS LIMITED"	AIFELMONA HOLDINGS LIMITED, a company having its registered seat at Kyriakou Matsi, 16, EAGLE HOUSE, 10th floor, 1082, Nicosia, Cyprus.
"Alicela"	ALICELA, a.s., a joint stock company (akciová společnost), having its registered office at Praha 10, Na Výsluní 201/13, 100 00, Czech Republic, and registered with the Commercial Register maintained by the Regional Court in Prague, Section B, under the number 9476
"Company", "FEG"	Fortuna Entertainment Group N.V., a limited liability company (Naamloze Vennootschap), having its statutory seat in Amsterdam, the Netherlands, and its registered offices at Strawinskylaan 809, 1077XX Amsterdam, the Netherlands, and registered with the Trade Register of the Chamber of Commerce of Amsterdam, the Netherlands, under number 34364038
"ibet"	ibet, s.r.o., a limited liability company (společnost s ručením omezeným) with its registered office at Praha 7, Jankovcova 1596/14, 170 00, Czech Republic, and registered with the Commercial Register maintained by the Regional Court in Prague, Section C, under number 162004
"Fortuna GAME"	FORTUNA GAME, a.s., a joint stock company (akciová společnost), having its registered office at Praha 1, Vodičkova 699/30, 110 00, Czech Republic and registered with the Commercial Register maintained by the Municipal Court in Prague, Section B under number 944
"Fortuna HR"	FORTUNA SPORTSKA KLADIONICA d.o.o., a limited liability company (društvo s ograničenom odgovornošću), having its registered office at Grada Vukovara 271 Street, Zagreb, Croatia, and registered with the Commercial Court in Zagreb in the register of companies under number 080396593
"Fortuna PL"	Fortuna zakłady bukmacherskie Sp. z o.o., a limited liability company (spółka z ograniczoną odpowiedzialnością) having its registered office at Bielska 47, Cieszyn, Poland, and registered with the register of entrepreneurs maintained by the District Court in Bielsko-Biała, VIII Commercial Division of the National Court Register, under number 0000002455
"Fortuna REAL"	FORTUNA Real, s.r.o., a limited liability company (spoločnosť s ručením obmedzeným), having its registered office at Digital park II, Einsteinova 23, 851 01, Bratislava 5, Slovak Republic and registered in the Commercial Register of the District Court of Bratislava I in Section Sro, under number 40783/B
"Fortuna RENT"	FORTUNA RENT, s.r.o., a limited liability company (společnost s ručením omezeným) with its registered office at Praha 1, Vodičkova 699/30, 110 00, Czech Republic, and registered with the Commercial Register maintained by the Regional Court in Prague, Section C, under number 104630

"Fortuna SazKan"	FORTUNA sázková kancelář, a.s., a joint stock company (akciová společnost), having its registered office at Praha 1, Vodičkova 30, 110 00, Czech Republic, and registered with the Commercial Register maintained by the Municipal Court in Prague, Section B under number 60. As of 4 January 2012, FORTUNA sázková kancelář, a.s. changed its name to Fortuna Loterie a.s.
"Fortuna sázky"	FORTUNA sázky a.s., a joint stock company (akciová společnost), with its registered office at Praha 1, Vodičkova 699/30, 110 00, Czech Republic, and registered with the Commercial Register maintained by the Regional Court in Prague, Section B, under number 14936
"Fortuna SK"	FORTUNA SK, a.s., a joint stock company (akciová společnost), having its registered office at Digital park II, Einsteinova 23, 851 01, Bratislava 5, Slovak Republic, and registered with the Commercial Register maintained by the District Court of Bratislava I in Section Sa under number 123/B
"Fortuna SW"	FORTUNA software, s.r.o. (formerly NAVI PRO, s.r.o.), a limited liability company (společnost s ručením omezeným) with its registered office at Praha 1, Vodičkova 699/30, 110 00, Czech Republic, and registered with the Commercial Register maintained by the Regional Court in Prague, Section C, under number 103552
"FortunaWin"	collectively FortunaWin Ltd., a limited liability company having its registered office at Villa Seminia, 8, Sir Temi Zammit Avenue, Ta' Xbiex XBX1011, Malta, and registered with the Malta Financial Services Authority under number C. 48339 and FortunaWin Gaming Ltd., a limited liability company having its registered office at Villa Seminia, 8, Sir Temi Zammit Avenue, Ta' Xbiex XBX1011, Malta, and registered with the Malta Financial Services Authority under number C. 48340
"Riverhill"	RIVERHILL, a.s., a joint stock company (akciová společnost), having its registered office at Praha 10, Na Výsluní 201/13, 100 00, Czech Republic, and registered with the Commercial Register maintained by the Regional Court in Prague, Section B, under number 9437
"Penta"	Penta Investments Limited, a company incorporated under the law of Cyprus with its registered office at Agias Fylaxeos & Polygnostou 212 C&I, 2nd floor, 3803 Limassol, Cyprus, and registered with the Cyprus Registry of Companies, Nicosia under number 158996