

## **REPORT OF THE AUDIT COMMITTEE** **FOR THE MEETING TO BE HELD ON** **27 FEBRUARY 2017**

### **A. INTRODUCTION**

Section 4 of Article 529R of the Capital Companies Act, introduced by the Fourth Final Provision of Law 22/2015, of 20 July, on auditing, provides, without prejudice to other functions attributed or pursuant to the Bylaws, the Regulations of the Board of Directors, the audit committee shall have at least the following competence:

*"e) Establish appropriate relations with the external auditor to receive information on any issues that may pose a threat to their independence, for consideration by the committee, and any others related to the development process of the audit, and, when appropriate, authorization of services other than those prohibited under the terms set out in article 5, sections 4 and 6.2.b) of Regulation (EU) No 537/2014 of 16 April, and 3rd section of chapter IV of Title I of Law 22/2015, of 20 July, on auditing, on the regime of independence, as well as other communications provided for in audit legislation and auditing standards. In any case, the Audit Committee shall receive annually from the external auditors written confirmation of their independence from any directly or indirectly related entity or entities thereof, as well as detailed and individualized information of any additional services of any class provided to said entities by said external auditors or by persons or entities linked to them in accordance with applicable legislation on account auditing.*

*f) **Annually issue, prior to issuance of the audit report, a report which will express an opinion on the independence of the auditors or audit firms.** This report shall contain, in any case, reasoned assessment of the performance of each and every one of the additional services referred to in the previous paragraph, considered individually and collectively, other than the statutory audit and in connection with the independence or the regulations of the audit activity".*

These obligations are incorporated in the Bylaws of Codere, S.A. in Article 26 and in the Regulations of the Board of Directors under Article 14.

Specifically, Article 14, paragraph 3 2nd g) of the Regulation of the Board of Directors of Codere, S.A. provides that it is the duty of the Audit Committee to:

*"Annually issue, prior to issuance of the audit report, a report which will express an opinion on the independence of the auditors or audit firms. This report shall, in any case, report on the provision of additional services as referred to above".*

In addition, the said article 14.3. in paragraph c) provides that the Committee is required to ensure the independence of the external auditor, and to this end shall:

- i) That the company communicate the change in auditor as a relevant fact to the Spanish Securities and Market Commission (CNMV), together with a statement on the eventual existence of disagreements with the outgoing auditor and, if such disagreements had existed, what they consisted of;*
- ii) Ensure that the company and the auditor respect the regulations in force regarding the provision of services other than auditing services, the limits to the concentration of the auditor's business and, in general, all other norms established to ensure the independence of the auditors;*
- iii) That in the event that the auditor should choose to resign, the Committee shall examine the reasons why.*

Accordingly, the Audit Committee of Codere, S.A. in the meeting on 27 February 2017, resolved to test the independence of the auditor of the company the group, issuing the opinion that the law and internal company regulations so requires.

## **B. REVIEW OF AUDITOR INDEPENDENCE.**

As already mentioned in the preceding section, Article 14 of the Regulation of the Board of Directors of Codere, S.A. indicates that for the purpose of ensuring the independence of the external auditor, the Audit Committee must check or ensure certain points, specifically:

**b.1.) Ensure that the company communicate the change in auditor as a relevant fact to the Spanish Securities and Market Commission (CNMV), together with a statement on the eventual existence of disagreements with the outgoing auditor and, if such disagreements had existed, what they consisted of.**

The Audit Committee meeting held on 19 May 2016 agreed to recommend to the Board of Directors of Codere, S.A. to propose to the General Meeting of Shareholders the appointment of ERNST & YOUNG, S.L. as auditor of the Company and its Group for a period of three years.

On 30 June 2016, the Ordinary General Meeting of Shareholders of Codere, S.A. approved by vote of 99.9% of shareholders present and represented, to name the company ERNST & YOUNG, S.L. as Auditors of the company Codere, S.A. and its Consolidated Group for fiscal years 2016, 2017 and 2018. On the same date, the company proceeded to inform the Spanish Securities and Market Commission (CNMV) of the agreement reached on the appointment of auditors as a significant event (No. 240361).

Consequently, ERNST & YOUNG, S.L. has been the auditor of individual accounts and consolidated Codere Group in 2016, in accordance with the resolutions adopted by the

General Shareholders' Meeting of Codere, S.A., having communicated the appointment to the CNMV as a significant event on each occasion.

Regarding the outgoing auditor (PwC), there has not been any disagreement or dispute.

**b.2.) Ensure that the company and the auditor respect the regulations in force regarding the provision of services other than auditing services, the limits to the concentration of the auditor's business and, in general, all other norms established to ensure the independence of the auditors;**

With regard to the receipt of fees billed by the audit firm and its related companies to the Codere Group, said fees amounted in 2016 to a total of 2,720,072 euro, of which 1,627,382 euro correspond to audit, and rest, amounting to 1,092,690 euro for services other than auditing (verification services, tax advice...).

	<b>CODERE SA</b>	<b>RESTO GRUPO</b>	<b>TOTAL</b>
EY Fees	200.000	1.427.382	1.627.382
Other services connected with auditing	253.200	309.974	563.174
Tax services	0	402.047	402.047
Other services	54.000	86.620	140.620
Total Payment to EY	507.200	2.226.022	2.733.222

This implies that fees charged by the auditing firm and its affiliates for services other than audit companies, represent 40.46% of the total amount invoiced by ERNST & YOUNG S.L. and its related companies from Codere S.A. and its Group and therefore, most of the revenue that the firm receives are specific to audit work.

Note that this year, the percentage of other than audit services is higher, resulting from the refinancing of bonds resulting from the restructuring. This process has forced the realization of limited reviews to 30/06/2016 and 2015 and the revision of the Offering Memorandum (work that had to be performed by the auditor).

In addition, the auditing company reports on its website ([http://www.ey.com/Publication/vwLUAssets/EY\\_-\\_Informe\\_Anual\\_de\\_Transparencia\\_2016/\\$FILE/EY-Informe-Transparencia-2016-Spain.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Informe_Anual_de_Transparencia_2016/$FILE/EY-Informe-Transparencia-2016-Spain.pdf)) on its revenues in the year ended 30 June 2015 (last published):

### **Revenues of Ernst & Young S.L. Year ended 30 June 2015**

	Revenues (in thousands of euro)	Percentage
Audit work	91,553	41%
Other services	130,605	59%
<b>TOTAL</b>	<b>222,158</b>	<b>100%</b>

Given that the total amount invoiced to the Codere Group in Spain amounted to 0.8 million euro, we can conclude that this figure represents 0.4% of the revenues of the auditing firm in Spain during the year ended 30 June 2015.

As for EY global revenues for the year ended 30 June 2016, the company has published on its website ([http://www.ey.com/Publication/vwLUAssets/ey-global-revenues-fy16-spain/\\$File/ey-global-revenues-fy16.pdf](http://www.ey.com/Publication/vwLUAssets/ey-global-revenues-fy16-spain/$File/ey-global-revenues-fy16.pdf)). Total revenue reached 29,626 million dollars (equivalent to <sup>1</sup>27,833 million) in all markets and for all services. Accordingly, the amount billed to the Codere Group in 2016 for audit work and other services, would for the EY Group represent 0'009% of their worldwide income.

Based on the information disclosed above, the Audit Committee concludes that there are no objective reasons to question the independence of the Auditor.

**b.3.) In the event that the auditor should choose to resign, the Committee shall examine the reasons why.**

Since the resignation of the external auditor has not occurred, the Audit Committee has nothing to report on this matter.

**b.4.) The Audit Committee shall receive annually from the auditors or audit firms written confirmation of their independence from any directly or indirectly related entity or entities thereof, and information of any additional services of any class provided to said entities by said auditors or audit firms**

The Audit Committee of Codere S.A. received in the meeting of 27 February 2017 written confirmation from the external auditors of their independence, formalized by letter dated 24 February 2017 signed by the Partner responsible for the account of Codere S.A. and its consolidated group.

This declaration of independence implies that the auditor of the Company during 2016 has not incurred any of the grounds of incompatibility contained in the Law on Auditing that prevent them from exercising their duties with due independence.

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<sup>1</sup> Exchange rate at 10 February 2017.

## **C. CONCLUSIONS**

The Audit Committee of Codere S.A., in view of the circumstances set out above and all applicable legislation, believes that there is no reason to doubt the independence of the ERNST & YOUNG S.L. during the year 2016 and so hereby declares.

In Madrid, on 27 February 2017