



## **ANNUAL REPORT OF ACTIVITIES OF THE AUDIT COMMITTEE OF CODERE S.A. FOR FY 2018**

### **1. INTRODUCTION**

We are pleased to submit the Annual Report of Activities of the Audit Committee of Codere S.A. for FY 2018. The Committee is obliged to prepare, pursuant to article 14.2.g) of the Board Regulation, a brief annual report on the activities performed by the Committee.

In addition, the Code of Good Governance of Listed Companies establishes, in Recommendation 6:

*“That listed companies that prepare the reports set out below, either voluntarily or compulsorily, publish them in their website sufficiently in advance of the annual shareholders’ meeting, even if their dissemination is not compulsory:*

- a) Report on the independence of the auditor.*
- b) Reports on the functioning of the audit and appointments and remuneration committees.*
- c) Report of the audit committee on related transactions.*
- d) Report on the corporate social responsibility policy”.*

In addition, Technical Guide 3/2017 on Audit Committees of Entities of Public Interest, point 79, (relating to the reporting to other bodies of the entity and to its shareholders) proposes the content that the report on the functioning of the audit committee should include.

This Annual Report of Activities of the Audit Committee of Codere S.A., for FY 2018, has been approved by the Committee at the meeting held on February 20, 2019. The Audit Committee will propose to the Board that the Report be made available to the shareholders of the Company when the Annual Shareholders’ Meeting is called.

Thus, applying the best principles of transparency in corporate governance, since FY 2015 the Annual Report of Activities of the Audit Committee of Codere S.A. is made available to the shareholders simultaneously with the notice of call for the Annual Shareholders’ Meeting, and may be consulted both at the corporate website and by requesting that it be sent free of charge.

### **2. REGULATION OF THE AUDIT COMMITTEE**

The regulation of the Audit Committee of Codere S.A. is established briefly in article 26 of the Bylaws of Codere S.A. and developed in further depth in article 14 of the Board Regulation of Codere S.A.



Said articles establish that the Audit Committee shall consist of at least three and no more than six members, designated by the Board of Directors, all of whom must be external Directors.

Likewise, in compliance with the Law, it is established that the Chairman of the Committee must be an Independent Director, who shall be replaced every two years and may be reelected after one year has elapsed from his removal.

Lastly, the above provisions establish the main duties to be discharged by the Committee, its power to call any employee or executive and the regularity of its meetings, established to be held at least once every quarter.

### 3. COMPOSITION OF THE AUDIT COMMITTEE

In 2018, in compliance with article 26 of the bylaws, the composition of the Audit Committee has changed, since in May, two years elapsed since the Chairman was elected, Independent Director Norman Sorensen Valdez having become the Chairman of the Committee. Accordingly, between January 1, 2018, and May 10, 2018, the composition of the Committee was as set out below:

Members	Class	Seniority on the Committee	Offices
Matthew Turner	Independent	May 5, 2016	Chairman
Norman Sorensen Valdez	Independent	May 5, 2016	Member
Timothy Lavelle	Nominee	May 5, 2016	Member

From May 10, 2018, to the end of the financial year, it was as set out below:

Members	Class	Seniority on the Committee	Offices
Norman Sorensen Valdez	Independent	May 5, 2016	Chairman
Matthew Turner	Independent	May 5, 2016	Member
Timothy Lavelle	Nominee	May 5, 2016	Member

As regards its composition, the Committee meets the requirements of legislation in force and compliance with article 529m of the Spanish Companies Law (*Ley de Sociedades de Capital*). Said article establishes:

*“The audit committee shall consist only of non-executive directors appointed by the board of directors, the majority of whom, at least, shall be independent directors and one of whom shall be designated taking into account his knowledge and experience in accounting, auditing or both matters.*

*As a set, the members of the committee shall have the relevant technical knowledge relating to the activity sector of the audited entity”.*

The Secretary of the Committee is the Secretary of the Board of Directors, pursuant to article 13.4 of the Board Regulation of “Codere, S.A.”.

The information on the members of the Audit Committee may be found at corporate website [www.grupocodere.com](http://www.grupocodere.com).

#### **4. FUNCTIONS AND TASKS PERFORMED IN THE YEAR**

The main matters discussed and reviewed by the Committee in FY 2018, making up its principal areas of supervision, may be grouped in the following six areas:

##### **1) In respect of the external auditor:**

In FY 2018, as regards the external auditor, the Committee performed various functions:

- a) In respect of its function of receiving regularly from the external auditor information on the audit plan and the results of its implementation (article 14.3.2.b. of the Board Regulation of Codere S.A.), the Committee has exercised this power four times: thus, at the meeting it held on February 16, 2018, the Audit Committee received from the auditors of EY the information relating to the updated status of the audit of FY 2017, while at the meeting of February 23, the Audit Committee received from the external auditor information on the audit closing of FY 2017, and its most relevant issues, delivering an first draft opinion. In addition, EY submitted to the Audit Committee at the meeting that it held on November 12, 2018, the plan of its activities for the audit of FY 2018, and its preliminary conclusions on the work in progress at the meeting it held on December 11, 2018.
- b) To ensure the independence of the external auditor (article 14.3.2 f and g. of the Board Regulation of Codere S.A.), the Committee issued at the meeting it held in February 2018, before the audit report was issued, a report giving its opinion on the independence of the firm of auditors. At that meeting, the Committee received written confirmation from EY of its independence from Codere S.A. and its group, and information on the additional services of any kind provided by said firm of auditors (see section 8 for further details on the matter).
- c) In addition, at the meetings held on February 23, May 10, July 24, October 31, November 12 and December 11, the Audit Committee was informed of and decided on certain contracts for services of companies in the Codere Group, the external auditor or companies in its Group.

##### **2) In respect of its task of supervision of the internal audit services (article 14.2.c) of the Board Regulation):**

In FY 2018, the Audit Committee supervised the internal audit services at most of the meetings held.

At the meeting held in February, the person responsible for internal audits submitted to the Committee a report of activities of FY 2017. At the same meeting, the Committee was informed of the recommendations of the fourth quarter of 2017 for the internal audit work. In respect of the main findings, and the internal audit recommendations for the first, second and third quarters of FY 2018, these were reported to the Audit Committee at the meetings held on May 10, July 24 and November 12.

After the improvements made in the previous financial year in respect of the processing of findings and recommendations, the Committee was informed that the Company is now more efficient in the resolution of the findings observed.

Lastly, at the meeting held in December, the person responsible for internal audit submitted the 2019 Annual Working Plan, setting out the main objectives, risks and action plan.

**3) In respect of its task to inform on the annual financial statements and on the prospectuses and on the quarterly or six-monthly regular financial reporting to the regulatory bodies (article 14.2.f) of the Board Regulation):**

In FY 2018, the Audit Committee has discussed this matter within its competence six times.

Thus, the Committee discussed the individual and consolidated annual financial statements and management reports closed at December 31, 2017 (meetings of February 16 and 23), the profit of the first quarter of 2018 (meeting held in May), the profit of the first half of 2018 (meeting of September) and the profit of the third quarter of 2018 (meeting of November), subsequently reporting the outcome of such discussions to the Board of Directors.

In addition, at the meeting held in April, the Audit Committee reviewed the prospectus and the decision to appeal to the Alternative Fixed-Income Market to obtain financing for one of the subsidiaries of the Group in better conditions than those existing until then.

**4) In respect of its task to supervise the information and internal control systems, reviewing the internal control and risk management systems regularly, including those of a tax nature (article 14.3.1 b of the Board Regulation):**

In FY 2018, the Committee performed these functions on several occasions.

At the meeting held on February 16, 2018, the Committee was informed of the Corporate Tax Policy describing the tax proceedings in progress at December.

At the meeting held in April 2018, the Audit Committee was informed of the main litigation risks of the Company and its Group.

At the meetings held in June, July, September and November, the Committee received a specific update on the status of various tax inspections in Italy, Mexico and Argentina and of the appeals lodged, if any.

In addition, in November 2018, the Committee analyzed the 2019 risk tolerance and risks map, approved at the Board meeting of November 12.

Lastly, at the meeting of December 2018, the person responsible for Internal Audits submitted to the Committee its report on the control of risk and procedures for control regarding tax matters, as identified in the risk matrixes.

#### **5) Transactions with related parties (Article 14.3.3.c) of the Board Regulation)**

In FY 2018, the Audit Committee continued to review related transactions on a regular basis. Thus, at the meeting of February 16, 2018, the related transactions of the last quarter of 2017 were reviewed, while those of the first, second and third quarters of 2018 were reported at the Committee meetings held in June, September and December.

Additionally, at the meeting held on February 23, 2018, the Audit Committee issued its report on transactions with related parties for the previous financial year, to propose its publication, together with the documentation relating to the Annual Shareholders' Meeting, to the Board of Directors.

#### **6) Miscellaneous matters within the competence of the Committee:**

In addition, the Committee discussed and reviewed in 2018 other matters within its competence.

Thus, at the meeting held in April, the Audit Committee was informed of the update of the project for IFRS 16 on leases, and its impact on the financial results and on the information to the market and on the existing financial instruments, this matter being again discussed at the meeting held in December 2018.

Also, at several meetings of the Committee held in 2018, the corporate and operating structure of the new digital business that the Group intended to commence was analyzed in addition to the possibility of relocating the registered office of the Spanish subsidiary that had been operating that type of gaming.

At the meeting held in December 2018, in compliance with article 5 of the Board Regulation of Codere S.A. and with the Technical Guide of the CNMV on Audit Committees, the Committee approved the welcoming program to apply to those who might thenceforth be appointed to members of said Committee.



## **5. NUMBER OF MEETINGS HELD IN THE YEAR AND NUMBER OF ATTENDEES, INCLUDING WHETHER OR NOT NON-MEMBER GUESTS WERE INVITED.**

In FY 2018, the Audit Committee held a total 11 meetings, adopting also once resolutions through the written procedure and without assembly.

At the meeting held in December 2018, Independent Director Matthew Turner was unable to attend the Audit Committee meeting for personal reasons and the Chairman of the Committee, Norman Sorensen Valdez, Independent Director, acted as his proxy.

Other than that time, 100% of the members of the Audit Committee attended its meetings throughout the year.

In addition, pursuant to article 13.5 of the Board Regulation, Director Manuel Martínez-Fidalgo Vázquez, Director also attends Committee meetings as a guest, with the right to speak but not to vote, to contribute his knowledge on financial affairs and on the market in which the company acts.

Lastly, on the instructions of the Chairman, the External Auditor E&Y, the General Manager, the Internal Audit Manager, the Financial Manager and other members of management, depending on the items on the agenda to be discussed at the meeting in question, also attended several Audit Committee meetings as guests.

## **7. EVALUATION OF THE FUNCTIONING AND PERFORMANCE OF THE AUDIT COMMITTEE; METHODS TO APPRAISE ITS EFFICACY**

On an annual basis, as established by law, the functioning of the Board of Codere S.A. and of its committees is evaluated.

This evaluation is carried out without an external consultant, by the directors completing a form that contains eight questions on the functioning of the Committees, in addition to a section containing questions on the performance and contribution of each director, giving special attention to the Chairmen of the various board committees.

According to such evaluation, in FY 2018 the need for the operating executives to be present at the Audit Committee meetings was observed for which purpose, that year, the Chairman invited a higher number of operating executives to report and submit to the questions raised by the Committee members.

## **8. INFORMATION ON THE OPINION OF THE AUDIT COMMITTEE ON THE INDEPENDENCE OF THE AUDITOR**

At the meeting held on February 23, 2018, the Audit Committee reviewed the relationships with the auditor, “ERNST & YOUNG S.L.”, to issue an opinion on its independence.



Thus, the Committee verified that the Company and the auditor observed the law in force on the provision of services other than auditing services and the limits on the concentration of the business of the auditor, reviewing the amount of the fees invoiced by the firm of auditors to Codere S.A. and its group, both for Audit and for other services relating to the Audit, tax services and other services, to know the amount of the fees for audit in respect of the total amount invoiced. It also analyzed the full amount invoiced to the Codere Group in Spain, in respect of the total turnover of Ernst&Young S.L.

Lastly, written confirmation of their independence was received from the external auditors in a letter dated February 23, 2018.

All the above permitted the Audit Committee of Codere S.A. to draw the conclusion that there was no reason to doubt the independence of the firm of auditors.

## **9. CONCLUSIONS**

In the period under review, the Audit Committee functioned with the expected normality, exercising its powers in full and without interference and with full compliance both with legislation in force and with the internal operating and organizational rules contained in the Board Regulation.

Throughout the year, the Audit Committee had the support of the services of Internal Audit, Financial Management and Auditors, performing the functions entrusted to it.

As a result of their work, the members of the Audit Committee consider that the Committee has satisfactorily performed throughout the year the functions entrusted to it by the Board of Directors of Codere S.A., contemplated in its Regulation, and have reported to the Board of Directors and the Management of the Company issues relating to the economic financial information of the Company, the efficacy of its internal control systems in respect of the relevant risks, and those potential aspects that may be improved in their respective spheres of responsibility.

## **10. DATE OF PREPARATION OF THE REPORT BY THE AUDIT COMMITTEE AND OF ITS APPROVAL BY THE BOARD OF DIRECTORS**

This report has been prepared by the Audit Committee at its meeting of February 20, 2019, and is expected to be approved at the meeting to be held on the same date by the Board of Directors, resolving its publication in the corporate website, sufficiently in advance of the date of the Annual Shareholders' Meeting.

**Madrid, February 20, 2019**