

Audit Report on Financial Statements
issued by an Independent Auditor
Codere, S.A.
Financial Statements and Management Report
for the year ended
December 31, 2019

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the shareholders of Codere, S.A.:

Report on the financial statements

Opinion

We have audited the financial statements of Codere, S.A. (the Company), which comprise the balance sheet as at December 31, 2019, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Non-current assets (Investments in group companies and affiliates and deferred tax asset)

Description Investment in group companies and affiliates

As explained in Note 7 to the accompanying financial statements, the Company recorded equity instruments amounting to 724,872 thousand euros in "Investments in group companies and associates." At least at year end, the Company assesses if there is evidence of impairment and recognizes any impairment loss. The amount of the impairment loss is the difference between the investment's carrying and recoverable amounts. The significant risk that some of these equity instruments show impairment, together with the relevance of the amounts involved and the complex estimates and judgments made by management to determine the recoverable amount of these assets, cause us to consider the valuation of investments in group companies and associates as a key audit matter.

Deferred tax assets

At December 31, 2019, the Company recognized deferred tax assets in the amount of 10,089 thousand euros. The disclosures pertaining to these assets can be found in note 15 of the accompanying financial statements.

The assessment performed by the Company's Management to determine the recoverable amount of these assets was based on estimated future taxable profit, in turn derived from the Group's financial projections and business plans and prevailing applicable tax regulations. We considered the assessment of the Company's ability to recover its deferred tax assets to be a key audit matter.

Our response In relation to this matter, our audit procedures included the following:

- ▶ Understanding the process followed by the Company to determine the recoverable amounts of its non-current (non-financial) assets.
- ▶ Evaluate the methodology utilized by management to determine the recoverable amounts of the assets in question, involving in-house valuation experts during the audit to assist us in (i) assessing the valuation methods used and their consistency of application; (ii) verifying the arithmetical calculations; and (iii) appraising the discount rates and long-term growth projections used.
- ▶ Performing procedures to review the financial projections, cross-checking the current situation with that projected the prior years in order to assure ourselves about the consistency and reasonableness of the estimates prepared in prior years and to analyze how Management's historical projections have ultimately panned out.
- ▶ Testing how sensitive the results are to reasonable possible changes in the key assumptions made.
- ▶ Analysis the internal and external factors considered by the Company for the purpose of determining whether or not there were objective indications that its other intangible assets or property, plant and equipment were impaired.
- ▶ Review of the disclosures in the notes to the financial statements with respect to the analysis of recoverability performed on investments in group companies and associates.

In addition, and in relation with deferred tax assets:

- ▶ Analysis of the assumptions used by Management to estimate how long it will take to utilize the deferred tax assets recognized, focusing our analysis on the economic, financial and tax assumptions used by the Company to estimate future taxable profit and involving our tax experts to this end. In addition, we tested how sensitive the results are to reasonable possible changes in the key assumptions made.
- ▶ Review the integrity and reasonability of financial statements disclosures.

Other information: management report

Other information refers exclusively to the 2019 management report, the preparation of which is the responsibility of the parent Company's directors and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. Our responsibility for the information contained in the management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a. A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the management report or where applicable, that the management report includes the corresponding reference to the separate non-financial report as stipulated by prevailing regulations and if not, disclose this fact.
- b. a general level applicable to the remaining information included in the management report, which requires us to evaluate and report on the consistency of said information in the financial statements, based on knowledge of the Company obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in the management report, and that the remaining the information contained therein is consistent with that provided in the 2019 financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of directors and the audit committee for the financial statements

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee of the Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee of the Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report to the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on February 28, 2020.

Term of engagement

The annual general shareholders' meeting held on June 26, 2019 appointed us as auditors for three years, commencing on December 31, 2019.

Previously, we were appointed as auditors by the shareholders for 3 years and we have been carrying out the audit of the financial statements continuously since December 31, 2016.

ERNST & YOUNG, S.L.

Jose Enrique Quijada Casillas

February 28, 2020

