

**ANNUAL REPORT OF ACTIVITIES  
OF THE AUDIT COMMITTEE OF CODERE S.A.  
FOR FY 2020**

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## **ANNUAL REPORT OF ACTIVITIES OF THE AUDIT COMMITTEE OF CODERE S.A. FOR FY 2020**

### **1. INTRODUCTION**

We are pleased to submit the Annual Report of Activities of the Audit Committee of Codere S.A. for FY 2020. 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 2020, has been prepared by the Committee, and approved at the Board meeting held on January 25, 2021. 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 2020, the composition of the Committee was as set out below:

Members	Class	Seniority on the Committee	Position	Accounting/auditing /risks expertise
Matthew Turner <sup>1</sup>	Independent	May 5, 2016	Chairman	✓
Norman Sorensen Valdez	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”.*

Members of the Committee have as a whole, the necessary knowledge and skills to perform their duties.

**MATTHEW C. TURNER.-** has been a member of the Board of Directors of Codere since April 28, 2016. Mr. Turner also serves as Chairman of the Appointments, Remuneration and Corporate Governance Committee, Chairman of the Compliance Committee and member of the Audit Committee of Codere. He is also currently Director and member of Executive Committee of Arcapita Investment Advisors UK Limited. Mr. Turner served as Managing Director and Head of International Global Private Equity at Bank of America Merrill Lynch. Previously, he was a partner at Palamon Capital Partners. Prior to joining Palamon Capital Partners, he spent more than 15 years as an Investment Executive with PPM Ventures Limited, where he served as Group Development Director. Mr. Turner graduated from the University of Anglia in 1985 with an LL.B. degree and became qualified as an attorney in 1988.

**NORMAN RAUL SORENSEN VALDEZ.-** has been a member of the Board of Directors of Codere since April 28, 2016. He is also currently a director of Encore Capital Group Inc. Previously, he has held positions at Principal International, American International Group and Citigroup. He received a Bachelor’s degree in chemistry from the United States Air Force Academy in 1971 and a Certificate from Columbia University’s Executive Program for International Managers in 1980. Mr. Sorensen Valdez currently serves as chairman of the

<sup>1</sup> Until May 2020, the Chairman of the Committee was Norman R. Sorensen Valdez

Audit Committee and he was also appointed Chairman of the Board of Directors in January 2018.

**TIMOTHY P. LAVELLE** .- has been a member of the Board of Directors of Codere since April 28, 2016 and member of the Audit Committee of Codere since then. Mr. Lavelle worked at Silver Point Capital, L.P. (an investment advisory firm) specializing in Investments in Special Situations from 2088 to 2019.. Prior to joining Silver Point Capital, L.P., Mr. Lavelle worked as an investment banker at Credit Suisse Securities. Mr. Lavelle received a BBA from the University of Notre Dame in 2006.

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 2020, making up its principal areas of supervision, may be grouped in the following five areas:

### **4.1. In respect of the external auditor (article 14.3.2º of the Board Regulation):**

In FY 2020, 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 three times: thus, at the meeting it held on February 14th, 2020, the Audit Committee received from the auditors of EY the information relating to the updated status of the audit of FY 2019, while at the meeting of February 27, the Audit Committee received from the external auditor information on the audit closing of FY 2019, and its most relevant issues, delivering a first draft opinion. In addition, EY informed to the Audit Committee at the meeting that it held on December 10th, 2020, the planning of audit work for FY 2020, as well as the preliminary results of its work.
- 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 27 2020, 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.
- c) In addition, at the meetings held on February 27, May 27 and December 10, the Audit Committee was informed of and decided on certain contracts for non-audit services of companies in the Codere Group, with the external auditor or companies in its Group.
- d) Lastly, the Audit Committee has received in three different session’s information from the External Auditor, on the results about the Interim Financial Information

Review (corresponding to the first, second and third quarters of 2020), carried out in accordance with the International Standard on Review Engagement 2410. The objective of this type of reviews of the interim financial information is to allow the auditor to express a conclusion as to whether, on the basis of its review, it has come to its knowledge any matter that leads him to believe that financial midterm information is not prepared, in all its materials aspects, in accordance with applicable financial reporting framework, although unlike an audit, it's not designed to obtain reasonable assurance that the interim financial information is free of material misstatement

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

In FY 2020, the Audit Committee supervised the internal audit services in five meetings.

The Chairman of Internal Audit presented to the Audit Committee at its May meeting, the amendment to the Audit Plan approved for FY 2020, to adapt it to the situation resulting from the pandemic produced by COVID-19, also informing the intention of the Department to carry out a special work in the last months of the year, to ensure that there are sufficient controls to guarantee the quality of the information for the 2020 close, both at operational and accounting level. Subsequently, at the meeting held on December 2020, the Audit Committee was effectively informed by the Internal Audit Chairman of the result of the special work abovementioned, which has been carried out country by country, concluding that the Group has maintained the level of the main controls, in the pre-pandemic line.

In the same scope of supervision, the Audit Committee received at its February 2020 meeting, the report of the activities carried out by the Internal Audit department during 2019.

Lastly, at the meeting held in December, the person responsible for internal audit submitted the 2021 Annual Working Plan, setting out the main objectives, risks and action plan.

#### **4.3. 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 2020, the Audit Committee has discussed this matter within its competence seven times.

Thus, the Committee reviewed and favorably informed the individual and consolidated annual financial statements and management reports closed at December 31, 2019. That review has been carried out for the last three years, in two different meetings ( in 2020 meetings held on February 14th and 27th), the first of which is dedicated to offering to Directors a preliminary version of the accounts which allows them to study them with enough time so that in the session in which they are approved, the Directors can highlight any doubt that may have arisen in their study.

In addition, the Audit Committee has reviewed and favorably informed to the Board on the results of the first quarter of 2020 (meeting of May 27<sup>th</sup>), the results of the first half of 2020 (meeting of September 7<sup>th</sup>) and the results of the third quarter of 2020 (meeting of November

11<sup>th</sup>), subsequently informing to the Board of Directors of the results of the discussion.

As we have mentioned above, these reports have been accompanied by the corresponding limited review by the external Auditor.

In addition, in the meeting held on January 2020 the Audit Committee agreed to favorably inform to the Board of Directors, the budget for 2020, and in May, the Audit Committee reviewed the liquidity status of the Group, within the framework of refinancing negotiations carried out by the Group.

**4.4. 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 2020, the Committee performed these functions on several occasions.

- a) Information and internal control systems to control and manage operational, technological and reputational risks:

The Audit Committee received at its meeting held in November, the report on the main risks detected by the Internal Audit Department during the first half of FY 2020 (in each country where the Group operates, the online unit and the IT department) including the level of risks that each one implied, the proposed measures to remediate them and the deadline to do so. That same report was received in the meeting of January, corresponding to the third quarter of 2019.

In addition, at the November meeting, the Internal Audit Director informed the Audit Committee on the update about the Group's risk map, proposing to the Board the risk tolerance for FY 2021. The report included the risks related to the pandemic caused by COVID-19, which affected all the markets where the Group operates (such as those caused in cash, as well as those related to employees or suppliers).

- b) Information and internal control systems to control and manage tax risks:

At the meeting held on February 14 and 27, 2020, the Committee was informed of the Corporate Tax Policy describing the tax proceedings in progress at December 2019, information lately provided to the Board of Directors.

In addition, at the meeting held on January 2020, the Audit Committee was informed on the status of one of the most relevant tax audit in Mexico, deciding to propose to the Board of Directors the filing of the corresponding appeal before the Court of Justice of Mexico.

- c) Information and internal control systems to control and manage litigation risks:

Lastly, the Audit Committee was informed on December 2020, on the evolution of the main litigation risks of the Group.

Previously, at the meeting held on September and in connection with a legal proceeding in Uruguay, the Audit Committee favorably report to the Board, about a possible settlement.

#### **4.5. Miscellaneous matters within the competence of the Committee:**

In addition, the Committee discussed and reviewed in 2020 other matters within its competence, such as the review of the treasury stock and the liquidity contract that provided it, a review of the online business and the challenges that it represents for the Group, or the reconciliation of incomes between the operational and accounting systems.

Finally, the Committee prepared its 2019 Activity Report and proposed to the Board of Directors its publication because of the General Shareholders Meeting, as was done.

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

In FY 2020, the Audit Committee held a total 7 meetings.

Attendance of the members to the Audit Committee meetings has been 100% throughout the year.

Likewise, during FY 2020, the following people have attended the Audit Committee meetings as guests: Vicente Di Loreto (General Manager), Adolfo Carpena Manso (Head of Internal Audit) and Angel Corzo Uceda (CFO). Other members of the manager team of the company, as well as external advisors, have also attended when called by the Committee,:

- Head of Legal and Compliance.
- Head of Corporate Development
- Head of Audit of Mexico, Colombia and Panama
- Representative of Jusvil S.A. (external advisor).

Lastly, on the instructions of the Chairman, the External Auditor Ernst &Young S.L. also attended several Audit Committee meetings as guests. The external auditor's team has attended the Audit Committee meetings in six occasions.

### **6. 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.



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

At the meeting held on February 27, 2020, 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 14, 2020.

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.

## **8. CONCLUSIONS**

Within FY 2020, which is the subject of the current report, the Audit Committee has developed its powers in a regular and interference-free manner, applying the external and internal regulations in force.

To carry out its tasks, the Audit Committee has been supported by the Internal Audit services, the finance departments and the external auditors, developing adequately its functions. Members of the Audit Committee consider that those functions, included in the Regulations of the Board of Directors, have been successfully fulfilled within 2020, focusing on its financial supervision tasks, the effectiveness of the internal control systems in relation to the relevant risks, and potential improvement measures in its area of responsibility.

## **9. 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 January 25, 2021, 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, January 25, 2021**