codere

2017 Annual Report

Carta del presidente

Dear readers:

The transformation of a leader, such as our company now is, entails a great responsibility which all of us who form part of this organization have eagerly taken on. We have one goal in mind: to lead the sector in all of its areas, both offline and online, in every market in which we are present. This is an ambitious goal, but one which we are sure we will reach.

In order to do so, from the new management we have dedicated all of our energies into preparing a plan able to exploit the growth potential of Codere, taking advantage of the changes presented by the evolving demographics which require a dynamic response to the new demand of the young population segments, showing a clear preference for innovation, differential attention, and online consumption.

During these first months of management, we have already attained significant milestones in this regard, making Codere a company that is more efficient, more direct and more in line with the objectives of its shareholders. An organization capable of making decisions with ease, and consequently able to adapt to an ever-changing industry and to seize the new opportunities which we have before us in the face of a promising future. In the wake of the completion of its restructuring this past 2016, Codere also now has a stronger financial capability to allow it to develop new growth projects.

It is on this solid foundation -which those of us at the new Management, Vicente Di Loreto, as the Chief Executive Officer, and myself, as Non-Executive Chairman, are pleased to represent- that we have developed a *Strategic Plan* for the next four years, the principal goal of which is to maximize Codere value by profitable growth. This requires that the customers and their needs be made the focus of attention, for which purpose we will invest in the integration of new technologies, the development of innovation and optimal day-to-day management.

However, these projects must not leave behind the values which we hold, the way we think and act, which we should be proud of. At Codere we continue to be committed to professionalism, transparency and responsibility. Only through these three principles is the excellence of a global company able to be achieved.

Especially noteworthy is our commitment to transparency. Codere, as a company listed on the Spanish Stock Exchange, complies with the Standards of Good Corporate Governance recommended by the Spanish National Securities Commission (CNMV), in an aim to protect the interests of the company and its shareholders. Consequently, the new management has taken decisions which reinforce this commitment, such as, for instance, the separation of the roles of chairman and CEO. This structure is not only in response to good corporate governance best practices, but also allows us to have a Management structure that is more agile and well balanced, one in which corporate governance management and strategic day-to-day management fall on different shoulders. This allows for a broader perspective and different viewpoints, giving rise to an orderly and enriching debate, supported by the various company committees.

Moreover, as could not be otherwise, people are the key to attain our goals. At year-end 2017, Codere was made up of 13,339 employees, of 41 different nationalities, 91% of which had indefinite employment contracts. Development, well-being and training are the pillars which sustain the Codere employment policy, in our long-term commitment to our team, and our conviction that the best organization is the one which is made up of satisfied people.

Lastly, I would point out that today the market shows us both sides of the coin: an ever-changing environment, filled with challenges which we must face as best we can, and an enormous range of opportunities to be taken advantage of as sectoral leaders in the various markets in which Codere is present. Our commitment is to tackle both scenarios vigorously but with common sense, through a strategy which is in line with a clear, defined business model, enabling us to share the success awaiting us in the future with all of the groups comprising Codere: shareholders, employees, markets, regulators, etc.

In this way, with each other's help, we will make Codere a company that is even greater than it already is, one able to lead the change in the sector and write new pages in this global industry.

Sincerely,
Norman Sorensen Valdez

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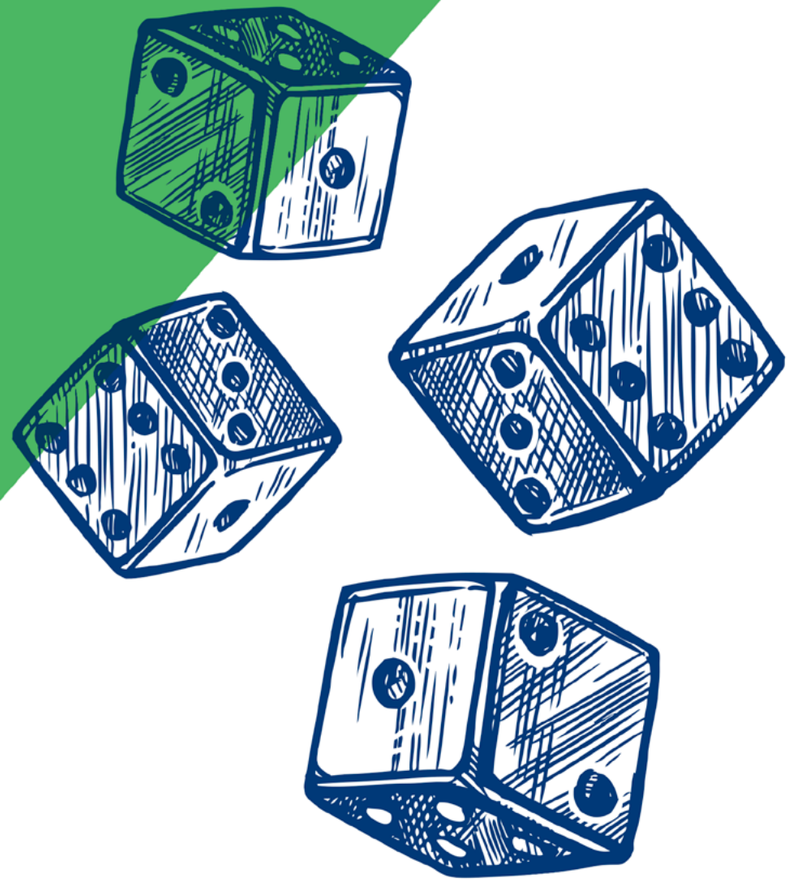

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1. The Company

Codere is a Spanish multinational of reference in the private gaming sector, with a professional track record of over 35 years in the sector.

The Group has some 13,400 employees and successfully carries out its activity in a number of areas, operating gaming terminals, gaming halls, sports betting, racetracks and online activity in eight countries in Europe (Spain and Italy) and Latin America (Argentina, Mexico, Colombia, Panama Uruguay and Brazil). Codere is the first and only Spanish gaming sector company listed on the Madrid Stock Exchange, going public on 19 October 2007, and carrying out its activity in this complex industry with total transparency and responsibility.

A long track record

Codere started up its activity in 1980 in the Autonomous Community of Madrid (Spain), as a gaming machine operator, and has diversified its activity in the industry, becoming a Company of reference in the various markets in which it operates. It heads gaming hall operations in the province of Buenos Aires (Argentina), Mexico and Uruguay, is a leading casino operator in Panama and in betting sites in Spain, and, furthermore, is one of the principal AWP machine operators in Spain and of bingos in Italy.

Throughout these years, the Company has known how to adapt to the market circumstances at any given time, adapting its activity to the various environments and reinvesting its profits in new growth opportunities with a customer-oriented vision.

Codere closed 2017 with sales of 1,638 million euros, 68% of which came from its business in Latin America, with an adjusted EBITDA of 274 million euros.

At year-end, the Company operated 56,548 gaming terminals, 149 gaming halls, 5,581 betting sites and four racetracks, in addition to carrying out online activity.

MISSION

People want to entertain themselves by playing games and placing bets in which chance and their skill play a part. In present day society there is an ever-growing demand for this type of activity. Codere has defined its mission to be that of attending to this demand with professionalism, transparency and responsibility, so as to be able to generate sustainable economic growth.

VISION

To be a reference for the professional, transparent and responsible management of gaming, for regulators and customers of the markets in which we have a presence.

VALUES

The values which define the Codere Group are professionalism, transparency and responsibility, which are firm commitments of the Company and are incorporated into the management of all of its areas of activity. Codere considers that professional action -in accordance with its values- is the best guarantee of its commitment to the creation of value for its stakeholders.

VALUES

Professionalism

Doing things well requires, in our opinion:

- Qualified teams undergoing continual training and development.
- Being customer-oriented, creating appreciable competitive advantages.
- Innovation which takes advantage of technological evolution.
- Respect and adaptation to the diversity of cultures and sensibilities of our markets.

Transparency

Our activity demands that we handle a large amount of outside resources, such as prizes for winners and special taxes. This characteristic imposes and justifies large-scale administrative intervention. Transparency is the only way to earn the trust and credibility of customers and regulators. We are the first Spanish gaming company to be listed on the Stock Exchange.

Responsibility

Excessive gambling may have socially worrisome effects on the most vulnerable groups.

By helping regulators and Public Administrations in order to reduce that potential social impact to a minimum, we are helping ourselves.

STRATEGY

After completing its restructuring in 2016 and successfully refinancing its corporate debt, Codere began a new stage with a stronger financial position enabling it to once again sustain growth projects.

Since that time, the Company has focused on its ***Strategic Plan*** *(2016-2020)*, which establishes a long-term vision of the business project, defining the competitive positioning of Codere by markets, as well as its management priorities. This plan will be adapted to the new scenario of the Company, in the wake of the changes in Codere management taking place since the Board meeting of 12 January 2018.

This strategic focus entails a **transformation of the organization** to respond to the new challenges of the sector: customer management and business digitization. Codere has gone from being a logistics operator to becoming a customer-oriented manager. This entails the need to incorporate technological and analytical capacities into the organization, in order to attain sophisticated customer database management and to be able to offer customers better service in highly competitive environments.

The new technologies, together with the gradual regularization of online gaming has shaped new consumer habits. This makes it necessary not only to guarantee a legal gambling online offering for customers (which provides users with the maximum assurances), but also to introduce digital elements in the operation and management of our gaming halls and betting sites.

All of these efforts are reflected in the signing, in November of 2016, of the **sponsorship agreement with the Real Madrid Football Club**, an agreement which makes Codere the Official Bookmaker of this Madrid football club until 2020. This alliance makes it possible to capitalize the worldwide recognition of this football club in Codere brand notoriety in Latin America and Europe, a decisive factor in promoting both the online as well as on-premise offering.

Codere in the world

MEXICO

MEX

- **19,607** GAMING MACHINES
- **92** GAMING HALLS
- **89** SPORTS BETTING
- **1** RACETRACKS
- ONLINE

PANAMA

PAN

- **3,216** GAMING MACHINES
- **13** GAMING HALLS
- **8** PUNTOS DE APUESTAS
- **1** RACETRACKS

COLOMBIA

COL

- **5,047** GAMING MACHINES
- **10** GAMING HALLS
- **143** SPORTS BETTING
- ONLINE

BRAZIL

BRA

- **4** SPORTS BETTING

ITALY

ITA

- **10,090** GAMING MACHINES
- **11** GAMING HALLS
- GAMING MACHINES NETWORK CONCESSIONS

SPAIN

ESP

- **9,383** GAMING MACHINES
- **3** GAMING HALLS
- **5.310** SPORTS BETTING
- ONLINE

URUGUAY

URU

- **2,253** GAMING MACHINES
- **6** GAMING HALLS
- **27** SPORTS BETTING
- **2** RACETRACKS

ARGENTINA

ARG

- **6,952** GAMING MACHINES
- **14** GAMING HALLS

NOTES:
Machines: Includes AWP machines, VLTs, electronic bingo terminals and any type of machine excluding third-party machines. **Gaming halls:** Includes only gaming establishments of > 50 machines. **Betting sites:** In Spain, these reflect the SST terminals, in other markets the number of bets. In Panama, 44 agencies associated with horse race bets are excluded.

Activity of the Codere countries

STARTUP
1991

2017 FIGURES
Income
582.4 million euros

EBITDA
134.2 million euros

2017 MILESTONES
Extension of the SPACE (CRM) platform in eight gaming halls, for an integral customer management.

Promotion of actions with customers

Argentina is the principal market of the Codere Group. It is the largest bingo hall operator in the Province of Buenos Aires, with 14 halls and nearly 7,000 gaming machines. The Company promotes customer relationships, offering customers an exclusive area equipped with the latest generation gaming machines, cafeteria and gastronomy service, and excellent personalized attention. Moreover, since September, it has implemented the SPACE (Customer Relationship Management) system in eight halls, allowing for the integral commercial management of the member base, the automation of offers and the automatic launching of commercial campaigns, aiming at all times to achieve greater customer satisfaction, and a growth in revenues and results.

Intense activity in gaming halls

On 31 March 2017, Codere México completed up to 100% of its participation in the Caliente Group in the amount of 26 million dollars (24.5 million euros). With this operation, both groups have put an end to all of their existing corporate agreements and contracts.

Throughout the year, the Company carried out intensive promotional and leisure activity in its gaming halls, carrying out over 1,100 events and around 980 promotional campaigns. In 2017 the Codere Casino brand was launched.

Moreover, the complexity of the sector in the country was the object of study in the book "Diagnóstico del Marco Normativo y Tributario de los Juegos con Apuestas" *(Diagnosis of the Regulatory and Fiscal Framework of Gambling)*, published by the Codere Foundation and the National Autonomous University of Mexico (UNAM), and is the first in-depth study on the Mexican gaming sector. This book was presented in the month of July.

STARTUP
1998

2017 FIGURES
Income
339.9 million euros

EBITDA
92.9 million euros

2017 MILESTONES
The Company acquired all of the shares held with the Caliente Group in the joint license holder companies.

STARTUP
1980

2017 FIGURES
Income
188.1 million euros

EBITDA
25.1 million euros

2017 MILESTONES
Codere Apuestas started operating in Andalusia and the Balearic Islands. Dynamic bingo was introduced in the bingo halls operated by the Company.

Consolidating leadership in sports betting

In 2017 Codere Apuestas, the only company licensed for on-premise sports betting which operates in all of the communities regulated in Spain, continued to expand, with the inclusion of two new regions: Andalusia and the Balearic Islands, with the number of points of sale reaching nearly 2,300, an increase of nearly 500 points of sale with respect to the previous year.

The average number of machines remained steady with respect to the preceding year, in which the number had fallen by 4%, in a year in which the gross average grew by 1.5%, owing both to product renewal efforts as well as to the management measures implemented. In the Canoe gaming hall, dynamic bingo was successfully introduced, which has made it possible to continue the growth trend of recent years. Moreover, the Company opened a new bingo hall at the end of 2017.

(*) The sports betting sites in Spain reflect the betting terminals (SSTs).

STARTUP
2001

2017 FIGURES
Income
335.8 million euros

EBITDA
23.6 million euros

2017 MILESTONES
Italy acquired 51% of the operators Norigames S.R.L. and Se.bi.lot. S.R.L.

New operations

Italy is seen as one of the strategic countries of the Group in its growth project. In January of 2017, the Company acquired 51% of Nori Games Service S.R.L., which operates more than 400 machines, basically in the region of Lombardy, and in June, 51% of SE.BI.LOT. S.R.L., a company operating over a broad expanse of Italian territory, with over 1,300 machines connected.

Renewal of gaming licenses

In September of 2017, Codere renewed the licenses of eight casinos until 2038. In the month of October, the license for the Hipódromo Presidente Remón, the only racetrack in Central America, was also renewed for the same period, including 50 sports betting associated agencies and the CrowN gaming machine hall. In addition, the Company has incorporated the Hotel Aloft Casino into its operation, under the Black Spade Casino brand.

Moreover, Codere has continued to invest in the jockey school, enlarging its installations. At the end of the year, the graduation of the 8th promotion of the *Laffit Pincay Jr.* Technical Jockey Academy, the "cradle of the best jockeys in the world", took place.

STARTUP
2005

2017 FIGURES
Income
94.3 million euros

EBITDA
14.8 million euros

2017 MILESTONES
The Company renewed the licenses of eight casinos and that of the racetrack Hipódromo Presidente Remón, for 20 years, and incorporated the Hotel Aloft Casino into its operation.

STARTUP
2002/2003 (Maroñas MRUS.A)

2017 FIGURES
Income
70.3 million euros

EBITDA
14.4 million euros

2017 MILESTONES
The year 2017 completed the greatest investment cycle of HRU S.A. since its reopening, culminating in the construction of the new Villa Hípica.

Unification of the business

In 2017, in the wake of the acquisition of the remaining 50% in 2016, the Codere Group consolidated 100% of the share capital of HRU S.A. (Maroñas - Racetracks, Slot Machine Halls) and of Carrasco Nobile S.A. (Sofitel Montevideo Casino Carrasco), offering a wide variety of services and entertainment in all of the business units.

The year marked the completion of the period of greatest investment since the reopening of the Hipódromo Nacional de Maroñas in 2003. The works and improvements undertaken include the creation of the new Villa Hípica (with a lookout point and trainer services); the completion of a grass track (prepared for the 2018 Longines Latin American Grand Prix); a new starting gate with 16 stalls; a photovoltaic electric power plant; and an auxiliary track for training purposes. These improvements make the Hipódromo Nacional de Maroñas one of the best racetracks in terms of infrastructure and beauty in the South American turf circuit.

Promotion of sports betting

In November of 2017, Codere Colombia started the operation of a new sports betting gaming modality, under an ambitious market coverage program, after the regulator Coljuegos granted it the concession authorizing the Company to exploit this activity for an initial period of five years through the internet, mobile and on-premise channels.

Throughout the year, Codere focused on its customer-oriented management model, through its loyalty and promotional schemes. Moreover, it started the operation of new gaming halls along the traditional business line, under new operating schemes which included player tracking systems, under the Company CRM platform.

STARTUP
1984

2017 FIGURES
Income
24.7 million euros

EBITDA
3 million euros

2017 MILESTONES
The Company launched the on-premise activity of Codere Apuestas and prepared the launching of its online activity in the country.

Principal milestones in Codere history

The Codere Group has grown and developed for over more than 35 years, running a long-distance race marked by a series of milestones:

1980

- Codere starts up its activities in Madrid.
- It enters the markets of Catalonia and the Autonomous Community of Valencia.
- Codere begins its international expansion in Colombia.

1990

- It begins managing bingo halls in Argentina.
- Codere starts operations in Mexico with Caliente and CIE.

1999

- Syndicated loan for 45 million euros.
- Codere is authorized to install gaming machines in the bingo halls of Argentina, driving business profitability.

2000

- Expansion in Chile.
- It obtains a syndicated loan for 72 million euros.
- Codere purchases the CANOE Bingo Hall in Madrid.
- It acquires Operibérica and adds 3,500 new gaming machines to its business in Spain.

2001

- Codere obtains a service management contract in 16 bingo halls in Italy.
- Monitor Clipper Partners invests 40 million euros in Codere.

2003

- Codere España S. L. takes out a mezzanine loan for 135 million euros.
- It attains the management of Hipódromo Nacional Maroñas of Montevideo (Uruguay) racetrack, and reopens it.
- Segregation of businesses: Spain and International.

2004

- Codere begins managing gaming terminals in Italy.
- It begins managing TEB in Mexico.
- Codere purchases the Royal Group in Argentina.
- Bond issue for 335 million euros.
- Acquisition of Operbingo in Italy.

2006

- Codere begins operating in Brazil.
- Bond issue for 160 and 165 million euros.
- Purchase of Bingo Palace and Codere Network in Italy.
- It acquires MAE Recreational Machines in Mallorca (Spain).
- Acquisition of Promojuegos in Mexico.
- The Martínez Sampedro family purchases the stake of the Franco brothers and the ICG and MCP funds.
- Asset swap between Chile and Panama.

2007

- Codere goes public.
- Acquisition of 49% of ICELA in Mexico.
- It purchases Maxibingo in Italy.
- Renewal of certain bingo licenses in Argentina.
- Codere and its shareholders obtain a sports betting license in the Basque Country (Spain).

2008

- Cashless (TITO) systems start to be introduced in Argentina.
- Codere obtains a sports betting license in the Autonomous Community of Madrid and opens the first sports betting shop in Spain.
- Opening of a new casino in Panama.
- Codere starts its sports betting operations in the Basque Country (Spain).

2009

- Codere renews the license of the La Plata (Argentina) Bingo Hall.
- Codere is awarded the tender for the reconstruction and management of the Hotel Casino Carrasco in Montevideo (Uruguay).
- Codere inaugurates the Casino Crown Palatino in Bogotá (Colombia).

2010

- Codere consolidates its position in Mexico and announces an agreement with the Caliente Group.
- It acquires six casinos in Panama.
- Codere starts its sports betting operations in Navarra (Spain).
- VLTs begin to be installed in its gaming halls.

2011

- Codere Italy closes the purchase of the gaming machine operators FG Slot Services, Gap Games and Gaming Re throughout 2011.
- Codere becomes the exclusive distributor of international simulcasting through its agreement with Jockey Club do Paraná (Brazil).
- The Codere Group Ethics and Conduct Code is approved.
- Start of the renovation works on the Hotel Casino Carrasco.

2012

- Purchase of 35.8% of CIE
- Codere places a bond issue for 300 million US$.
- The Company obtains the license for the possession, use and exploitation of the Hipódromo de las Piedras racetrack in Uruguay for 30 years, and continues with the Hotel Casino Carrasco renovations.
- It inaugurates the CrowN Casino Zona T hall in Bogotá, Colombia.
- Renewal until 2028 and 2029 of five of the licenses which Codere operates in gaming halls in the province of Buenos Aires (Argentina).

2013

- Re-inauguration of the Carrasco Casino and reopening of the Hipódromo de las Piedras racetrack, both in Uruguay.
- Celebration of the 70th anniversary of the Hipódromo de las Américas racetrack in Mexico.
- Simultaneous transmission of horse races throughout North America.
- Renewal of the licenses granted to five gaming halls in Argentina.

2014

- Codere reaches an agreement with the essential terms for the restructuring of Group capital and debt.
- Agreement for simulcasting between the Maroñas and Las Piedras racetracks in Uruguay and the Hipódromo de Cristal racetrack in Porto Alegre, Brazil.
- Codere leads on-premise betting in Spain and launches the web App: codere.es.

2015

- Growth of Codere Italy through the purchase of local operators.
- Codere Apuestas operates under national license and incorporates casino games into its online activity.
- Codere Brazil launches a pilot drive of its online activity.
- Finalization of the integration process of the CrowN brand in Panama.

2016

- Codere completes the Company balance sheet restructuring process.
- Definition of the long-term Strategic Plan 2016-2020.
- Corporate debt refinancing allows for lower interest expense.
- Codere acquires the additional 50% of HRU, its subsidiary in Uruguay.
- The Company becomes the Official Bookmaker of Real Madrid Football Club.
- Codere Apuestas starts its online activity in Mexico.

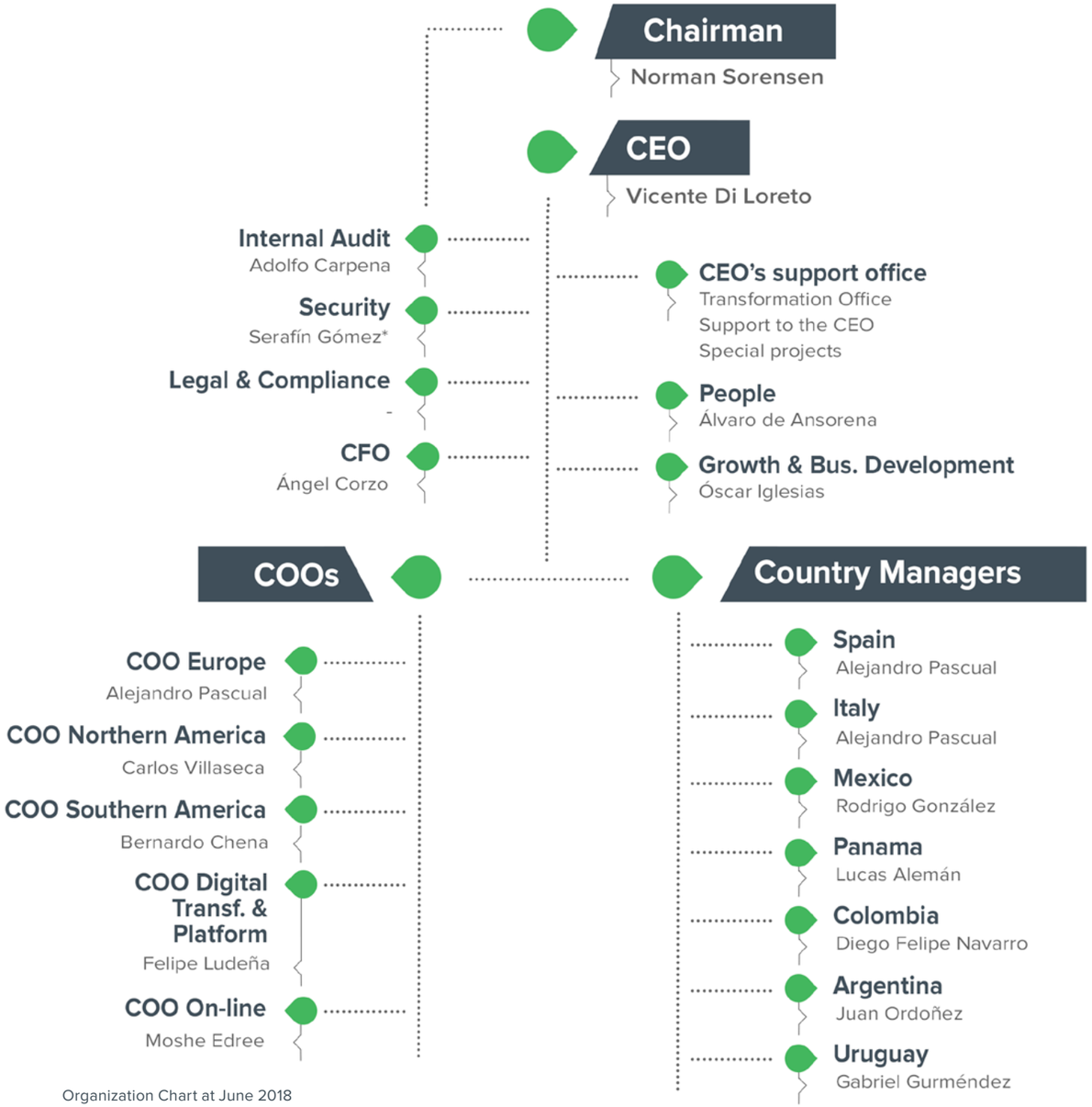
2017

- Codere renews the licenses for eight casinos and for the Hipódromo Presidente Remón racetrack in Panama for 20 years.
- The Company acquires the totality of shares of the joint operation with the Caliente Group in Mexico.
- Codere Colombia obtains the license for sports betting and online activity for five years.
- Codere Italy acquires 51% of Norigames S.R.L. and 51% of Se.bi.lot S.R.L.

A New Organization

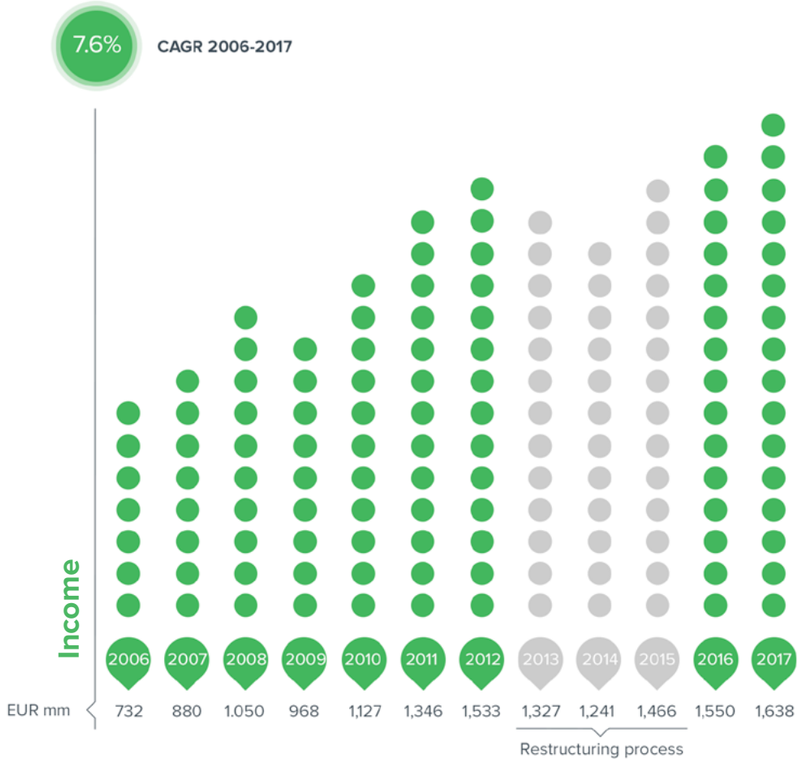
At the meeting of the Board of Directors of the Codere Group, held on 12 January 2018, the group of directors proposed by Silver Point Capital together with the independent directors proposed the dismissal of the chairman and deputy chairman, designating Norman Sorensen as the new Non-Executive Chairman and Vicente Di Loreto as the new CEO.

The new organizational scheme of the Group is committed to a regionalization in three large areas: Europe, North America (Northern Cone) and South America (Southern Cone), in order to simplify organization and improve efficiency.

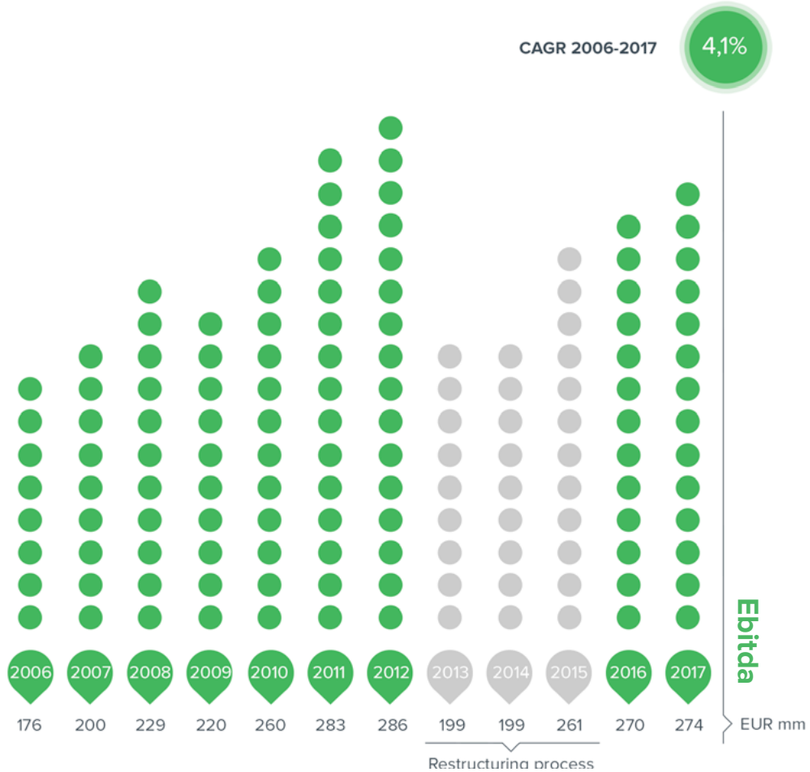


Organization Chart at June 2018

2017 Principal magnitudes of the Codere Group



2017 Principal magnitudes of the Codere Group



CAGR: Compound Annual Growth Rate
2004-2008: Excludes discontinued operations
2008-2009: Exludes the gains or losses on assets disposals
2012-2015: The results reflect the contribution of the Argentine business to the unofficial or blue exchange rate
2013-2015: Restructuring Process

2017 Operating Data

Gaming Machines	Gaming Halls	Sports Betting	Racetracks	Online
56,548	149	5,581	4	3
Argentina - 6,952	Argentina - 14	Mexico - 89	Mexico - 1	Mexico
Mexico - 19,607	Mexico - 92	Spain - 5,310	Panama - 1	Spain
Italy - 10,090	Italy - 11	Panama - 8	Uruguay - 2	Colombia
Spain - 9,383	Spain - 3	Colombia - 143		
Panama - 3,216	Panama - 13	Uruguay - 27		
Colombia - 5,047	Colombia - 10	Brazil - 4		
Uruguay - 2,253	Uruguay - 6			

Management Report

EXECUTIVE ANALYSIS. Positive Results in 2017

The consolidated results of 2017 have reflected the slow but increasing improvement of the profitability of the Company, despite the impact of the regulatory and macroeconomic changes taking place throughout the year in the various countries in which the Group operates

Codere recorded a net profit of 2.8 million euros, and increased income by 6%, reaching 1,638 million euros, principally driven by the good performance of the business in Argentina, Spain, Italy, and Mexico. 68% of Group income came from the Latin American market, as opposed to 32% which came from Europe (Spain and Italy). Adjusted EBITDA likewise continued to rise, exceeding 273 million euros, 1.5% higher than that of the previous year.

Throughout 2017, certain fiscal and regulatory events took place which had an impact on some of the Group markets and their results.

In Mexico, in the month of March, the Company acquired -through its subsidiary in the country- a minority holding in the joint operation with the Caliente Group, increasing its shareholding to 100%. In addition, the earthquakes which occurred in September caused fourteen gaming halls to be temporarily closed, with this impacting the Group profit and loss account.

In Argentina, from the end of 2016, federal taxes were approved, which included a 0.95% tax on amounts wagered (effective as from 17 March), as was a company tax levied on gaming operators -which rose from 35% to 41.5%-. A provincial tax on players in the amount of 20 pesos was established for access to the gaming halls (yet to be implemented), and the tax on gross income was increased from 12% to 15%.

In Uruguay, in the month of September, the Senate approved two additional taxes: a 0.75% tax (on amounts wagered in machines) and a 12% withholding tax on prizes (applicable as from a certain amount).

En Italia, in April of 2017, an increase in the gaming tax (PREU) was approved for amounts wagered in the AWP machines, rising from 17.5% to 19%, and in the VLTs, increasing from 5.5% to 6%. Along parallel lines, at 1 September 2017 the Italian Government published a decree to reduce the number of AWP machine licenses (Stability Law).

The investments made in 2017 exceeded 151 million euros, of which 57.5% were allocated to maintenance, especially in the Mexican and Spanish markets, with the renovation of gaming machines and halls. Also in Panama, including 10 million dollars, for the renewal of casino licenses until 2038 and the renewal of the license of the Hipódromo Presidente Remón racetrack, and the 50 sports betting associated agencies. In Argentina and Italy, maintenance investments were allocated basically to the renovation of gaming machines.

42.4% of investments were allocated to growth (36.6% more than in 2016), including the acquisition of Codere Caliente (24.5 million euros) and larger investments in Spain, Italy and Colombia. At 31 December 2017, the Company treasury amounted to 104.5 million euros.

With respect to operational data, it must be pointed out that in 2017 the number of gaming machines rose by around 2.7% compared to the previous year, amounting to 56,548 terminals, reflecting growth in Argentina, Mexico, Italy and Spain. The total number of sports betting sites grew by 40%, reaching a total of 5,581. In 2017, Codere activity was supplemented by 149 gaming halls (of over 50 machines), four horse racetracks and online activity.

Performance of principal markets

In Argentina, the Group increased its operating income to 582.4 million euros (9% above 2016), owing to the strong growth of the business. In local currency, operating income rose by 24.8%. On the other hand, operating expenses grew by 11%, owing to the 37.7 million euro increase in gaming taxes. Adjusted EBITDA rose by 2.4%, up to 134.2 million euros, in comparison with the 131 million euros obtained in 2016.

In México, Codere obtained an operating income of 339.9 million euros, 3.1% more at an inter-annual rate, owing principally to the depreciation of the local currency. Worthy of mention is the sustained growth of the firm in a complicated context owing to the renovation work carried out in many of the Company installations, and likewise to the damage caused by the earthquake in September. Operating expenses grew in 2017 by merely 2.4% (5.8 million euros), despite the 7.2% increase in taxes applied to gaming. As a result, adjusted income rose by 5.0%.

In Italia, The Company grew by 4.4%, with income reaching 335.8 million euros. This result is largely owing to the growth recorded in the last quarter of the year, in the wake of the acquisition of 51% of the stake in Se.bi. lot SRL, a local AWP machine operator. Expenses grew by 5.8%, owing, among other causes, to the 3.1% increase in gaming taxes and the 20.9% rise in lease expenses. Adjusted EBITDA, on its part, was 10.7% below that obtained in 2016.

In España, Codere increased its sales by 10.5%, up to 188.1 million euros. This result is owing to the growth of the online sports betting business, and, to a lesser extent, to the increase in the bingo, gaming machines, and sports betting areas. Operating expenses grew by 15.8%, as the result of increased marketing expense in the online and sports betting business areas, as well as the increase in personnel expenses and leases related to the sports betting points of sale. Whereas adjusted EBITDA fell by 4.4 million euros with respect to 2016 (14.9%), Q4 EBITDA rose by 8.5 million euros (51% higher than the previous year).

Other operations

In Panamá, income rose by 4% in a context of notable devaluation of the dollar with respect to the euro in Q4 2017. Adjusted EBITDA fell by 1.9 million euros with respect to the previous year.

In Colombia, income remained steady with respect to 2017, despite the 1% depreciation of the euro against the Colombian peso. Adjusted EBITDA fell by 1.8 million euros with respect to the previous year, owing to increased gaming taxes, as the result of the implementation of the variable tax per machine and increased expenses related to the launching of sports betting.

In Uruguay, income grew by 4.9 million owing to the 5% depreciation of the dollar against the Uruguayan peso, and to the improved profitability of Carrasco Nobile. Adjusted EBITDA grew by 8.1 million euros, basically owing to improved operations in Carrasco Nobile.

Group innovation

INNOVATION. Codere, at the vanguard in customer management

The Codere Digital Transformation Process is integrated as a key element of the Group business strategy. This commitment to innovation, to a large extent supported by Artificial Intelligence (AI) projects, has allowed the Company to advance in its customer-oriented approach, ensuring the most advanced solutions with respect to management, product and services.

Among the latest projects which place Codere at the head of the sector, are IoT (Internet of Things) developments, and projects based on Big Data, which open up new opportunities for growth in this process of change. Likewise, the Company has made great efforts to support operators, promoting tools which assist them in managing their business of online and offline bets, and it puts gamification projects into practice to improve general knowledge about betting, gaming activity and sports, in an entertaining fashion.

Slot IoT: Multiproduct Combination

The Company has evolved its multiproduct offering with a pilot project which promotes gaming loyalty among B-machine customers, through the Codere Club card. The players are not only able to win prizes and benefit from special advantages such as drawings, freebets, etc., but can also redeem their points through *Halcash*, in an entity, or accumulate their points to enjoy other games such as on/offline sports betting.

The effectiveness of this linked machine has a twofold advantage: with regard to the player, promoting player loyalty, and with respect to the operator, making it possible to monitor the game and the activity of the machine in real time, facilitating machine management.

In the area of AI, in the past year the Company worked on the following projects:

JARVIS, Virtual SPM Intelligence

Since 2017 Codere has implemented a complete neural network system which is constantly active, analyzing the processes and variables of all of the Company productive systems, the precision of which makes it possible to detect and alert in advance of any errors and deficiencies (for instance, a systems crash). This platform is able to resolve possible incidents in real time, automatically, through the analysis of variables, guaranteeing the betting system, providing greater quality, and guaranteeing the operator's income level.

WoPR

Along this same line, WoPR functions as a support for the contact center, and is able to resolve a large percentage of the entering incidents, reducing the response time and improving the quality of the system. This data scientist algorithm is improving its capacity day by day, learning from the processes being managed, initially through CSS (Customer Support Service) files, but it can eventually automatically resolve incidents with great accuracy, estimating procedures and automating them directly without any additional human intervention.

Facial recognition to identify the audience in the Hall

Lastly, the Company is making progress on innovative solutions for facial recognition in gaming halls, making it possible to reinforce security systems for access ways, in addition to driving customer-oriented actions, when segmenting, labeling and optimizing campaigns, games, and ad-hoc marketing for each individual and establishment. This is an evolution of customer recognition through Wi-Fi.

Along parallel lines, Codere is reinforcing its commitment to its partners, and is developing a number of tools which contribute to improving its business:

RIS (Retail Information System)

In 2017, Codere developed the RIS management tool for on/offline betting operators in Spain and Colombia, which makes it possible to monitor the establishment of each partner by means of a highly intuitive dashboard, with all of its business indicators (accesses, income, balances, performance report, etc.) Moreover, this dashboard also provides access to a heat map of players in the gaming hall, which is very useful in order for the operator to be able to make decisions regarding its business in real time.

Gamification

The Company proposes a series of entertainment challenges for its partners through “SmartQUIZ”, a platform which -by way of a game of trivial pursuit- tests their knowledge and encourages their curiosity in matters related to the Codere Apuestas business model, products, services, or sports events, among other things.

This project, developed jointly by the area of Product Technology and Product Formation, was launched at the end of 2017 with great success, as a pilot project, among partners and personnel of LBOs. A new series of games is already prepared, with new contents (security, autonomous community betting laws, general sports culture, etc.) which will have an *entertainment mode or challenge mode* and will allow for multiple entertainment options.

Areas of activity

AREAS OF ACTIVITY

Codere carries out its activity in five areas: gaming machines, gaming halls, sports betting, racetracks, and online games. Company activity adapts itself to the regulations in each country, and manages its operations in line with the peculiarities of the eight local markets in which it operates.

In 2017, Codere managed over 56,500 gaming terminals, 30,000 bingo seats, nearly 5,600 gaming machines in Latin America, Spain and Italy -through points of sale which include 149 gaming halls- 823 recreational halls, 10,300 bars, 325 betting shops and four racetracks, in addition to engaging in online activity.

Gaming Machines

Gaming machines are the origin of Codere's activity in the sector, and constitute one of its principal business areas. In 2017, the Company operated 56,548 machines, 2.7% more than in the previous year, recording growth in the past year in Mexico, Spain, Italy and Panama, markets which are very different from one another and which are at different stages of maturity.

The Codere gaming machines include AWPs, VLTs, electronic bingo terminals, and other types of machines. The annual computation excludes those operated by third parties.

Each year, Group professionals analyze the tastes and preferences of consumers, as well as the needs of the establishments in order to meet their demands, and provide customers and users with an integral quality service through the analysis, renovation, and rotation of machine models, commercial attention, collection management, technical service, or management services, among other activities carried out.

Gaming terminals operated by Codere

The Codere gaming machines are located in gaming halls, recreational halls (gaming establishments having between five and fifty machines operated by the Company or by third parties), bars (bars, restaurants, tobacco shops, and any other establishment -except for recreational halls- having fewer than five betting machines or terminals) and racetracks, and offer prizes in accordance with user bets.

The different types of gaming terminals adapt to the characteristics of each market:

- **AWP (Amusement With Prize) Machines:** machines which pay out cash prizes as the result of a percentage of total bets on a pre-determined cycle of games. In Spain, Codere operates type B machines, and in Italy, Comma 6A machines.

- **Casino Slots:** Casino or gaming machines. In exchange for a given bet, these machines give the user a game time and, eventually, a prize which will always depend on chance. Codere operates these types of terminals in Argentina, Panama, Colombia, Mexico and Uruguay.

- **Electronic Bingo Terminals (EBT):** machines incorporating games similar to those played with bingo cards in the authorized bingo halls. Codere operates EBTs principally in Spain.

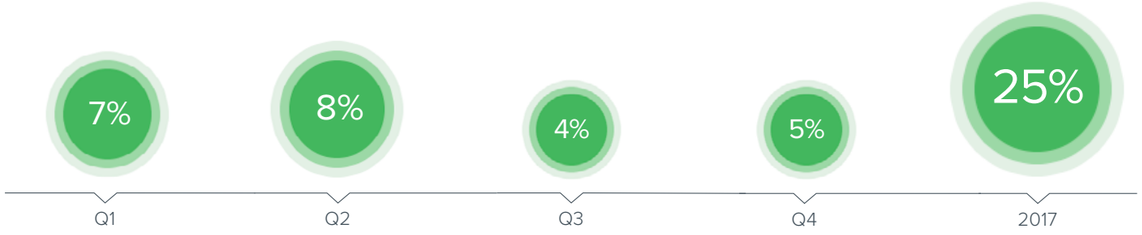
- **VLT (Video Lottery) Terminals:** machines with a cash prize coming from a percentage of the total amount played by means of a random statistical system, operated in Italy, so far, by Codere.

- **Electronic Bingo:** online game based on bingo which allows several persons to play online at the same time, through a touch screen. It has a prize structure which combines traditional shared prizes with individual prizes, as the main attraction. In Spain, these terminals are found in the CANOE gaming hall.

Spain

The origin of Codere activity in Spain is linked to gaming machines, and it currently holds a notable position in the sector. In 2017, Spain had 9,383 machines installed, accounting for nearly 17% of the Group total.

Throughout the year, measures were implemented in Codere Spain in order to strengthen the operating team, which will allow for the creation of a solid base to face the growth in the number of machines in the coming years, based both on recruits as well as in specific operator acquisitions. These measures will make it possible for us to maintain the average number of machines for the year, as opposed to the 4% fall in the previous year. The increased income in the machine business was also owing to an improvement of 1.5% in 2017 in the daily average per machine, as a result of this investment in product and the macroeconomic improvement in Spain.



Quarterly Renovation of Gaming Machines

Italy

Codere operates an important gaming terminal interconnection network in Italy, Codere Network, as well as AWP terminals and Videolottery Terminals (VLTs). At the present time, all of the machines in Italy are linked thanks to the various networks of the concessionaire companies. The VLTs were incorporated into the market thanks to the regulatory changes of 2009, which after the earthquake in L'Aquila, allowed for the installation of new terminals. The Company, through Codere Network, connects its own machines and offers services to third parties.

At the end of 2017, the number of machines managed directly by Codere Italy amounted to 10,090 (9,215 AWPs and 875 VLTs) linked to Codere Network or other networks, 11.7% more than in the previous year.

Throughout the year, Codere maintained its growth policy through the purchase of operators, which drove its income by 4.4%.

In January, Codere signed for the purchase of 51% of Nori Games Service S.R.L, a company which operates over 400 machines, basically in the region of Lombardy. In June, Codere acquired 51% of SE.BI.LOT. S.R.L., a company having a presence in a number of regions in Italy, with some 1,300 linked machines.

Mexico

Codere set up operations in Mexico in 1998 through the business alliances with the CIE and Caliente Group. Ever since that time, Codere has been pioneer in the gaming sector with bets and lotteries. Currently, Codere is the leading gaming hall operator in Mexico, operating 92 gaming halls in that country. Likewise, the Company operates 19,607 gaming terminals there -located in gaming halls- and the Hipódromo de las Américas racetrack.

Despite the renovations carried out in many halls and the interruption of activity in some of these -as the result of the earthquakes which took place on 19 September- increases were recorded in both the daily average per machine (7.8%) in local currency, as well as in the number of machines (1.1%).

Argentina

Codere centers its gaming machine activity in Argentina in the province of Buenos Aires, and is one of the leading companies in the sector. In this country, the Company operates 6,952 gaming machines, and the daily average per machine increased by 12.7% (in euros). The accumulated inter-annual collection increased by 25%.

In the gaming halls, Codere has the latest generation slot machines, progressive, video poker slots, electronic roulette, etc. The slots use a *ticket in-ticket out* payment system for greater player comfort, and in all of the halls the Company has linked slots which accumulate a common jackpot which grows as more people play.

A large part of the halls have Smokers' Clubs, providing an exclusive space with the latest generation machines, a cafeteria, and food and beverage service, and excellent personalized attention.

Colombia

In Colombia Codere operates 5,047 gaming machines, 6.6% fewer than in the previous year.

In compliance with the gaming regulator Coljuegos, which required all operators to have 100% connectivity of the electronic slot machines by 2 November 2016, by said date the Company already had all of its machines interconnected and was paying monthly operating fees.

In 2017, Codere Colombia worked in conjunction with the gaming authorities on a process for verifying online connection and information sent through the connection system in order to maintain uniform reporting criteria. Throughout the year, Coljuegos issued other resolutions which changed the operating scheme for electronic gaming machines (slot machines) in establishments, in regard to minimum number of elements per establishment and contract, opening up the possibility of cash payments for prizes in the electronic machine locations, and changing aspects regarding means of payment and gaming ticket contents, among other aspects.

Panama

Gaming machines are also the origin of the activity of the Codere Panama group. At the end of last year, Codere Panama had renovated nearly 19% of its machines, incorporating some 530 new ones. Likewise, in line with its product optimization strategy, over fifty gaming changes were made. In 2017, the number of terminals grew by 4.8%, and totaled 3,216 machines.

The recent unification of its casinos under the CrowN brand favors its positioning as an entertainment leader in all of the casinos of the country, and at the same time allows it to improve its profitability and competiveness in the market.

Uruguay

In the wake of a long renovation process, in March of 2013 the Sofitel Montevideo Casino Carrasco & Spa was inaugurated. Carrasco Nobile is a consortium headed by the Codere Group, and in 2009 was awarded the tender for this emblematic building, an icon of entertainment and gaming in Latin America, a luxury hotel with a vanguard casino of over 3,000 square meters, distributed on two levels.

The Casino Carrasco is open to both guests as well as the general public. The gaming area has 24 tables (Roulette, Black Jack, Baccarat, Mini and Midi Baccarat, Poker, Craps, Big Sixes) and 403 slot machines of the most highly recognized brands internationally, with progressive slots linked to different groups of slots having a number of modalities, and stand-alone progressive slots.

As from 2017, the Grupo Codere became the owner of 100% of the share capital of HRU S.A. and of Carrasco Nobile S.A (Sofitel Montevideo Casino Carrasco), offering a wide variety of services and entertainment in all of their business lines.

In 2017, 46 machines were incorporated, replacing older machines not as well liked by customers, at an estimated investment of USD 700,000.

Gaming Halls

Codere is an operator of international reference managing 149 gaming halls (with over 50 gaming machines) in the countries in which it is present. In addition, it carries out its activity through 823 recreational halls (gaming establishments having between 5 and 50 gaming machines operated by Codere or third parties) and in 10,300 bars (bars, restaurants, tobacco shops, and any other establishment having fewer than five betting machines or terminals)

In recent years, the Company made a significant investment effort in this segment, becoming the leading operator in Latin America, especially in Mexico and Argentina, in the province of Buenos Aires, in Panama and Uruguay.

Argentina

Codere Argentina is the largest bingo hall operator in the province of Buenos Aires and has fourteen gaming halls currently in operation. During 2017, the Company carried out intense activity in all of its gaming halls, including a number of diverse events, such as anniversaries, gastronomic events, music shows with local performers, and loyalty activities, which place the Company at the forefront of the market, with the largest offering of leisure and entertainment.

In its halls, Codere has the latest generation **slot machines**, progressive slots, video poker slots and electronic roulette. The slots have a *Ticket In–Ticket Out* payment system for greater player comfort, and in all of the gaming halls the Company has connected slots, which accumulate a common prize which is increased every time a machine is played.

There continue to be **Smokers' Clubs** in nine of the fourteen Company halls, offering an exclusive space equipped with latest generation machines, cafeteria and gastronomy service, and excellent personalized service. Taking as a focal point the promotion of customer relations and **continual improvement**, the Company periodically conducts customer satisfaction analyses (through satisfaction surveys, focus groups and mystery shopper).

Through the **loyalty program**, EL CLUB, members are offered rewards through the accumulation of points called "crowns". EL CLUB allows points to be redeemed for cash. Through the individual program card, full and accurate information on customer behavior is provided, and is analyzed by the data mining team in order to design offers and actions for the different stages in the customer life cycle. At year-end 2017, the program already had 80,000 active members per month, 44,500 new members, and throughout the year some $11,700,000 in drawings exclusively for members were handed out.

Moreover, "Gaming Hall Encounters", continue to be held exclusively for highly valued members, who take part in various activities (wine, chocolate, and beer tastings, courses, etc.) with care and dedication in the selection and ambience of each detail being taken at all times. EL CLUB also segments in direct relation to ***game volume,*** providing personalized rewards and focusing attention on the Call Center service.

Throughout the year, a series of **hall management improvements** were made: ID Card reader for member adhesion and validation of redemption tickets, greater detail in tools for connected members, new reports for promoters and PR for improved gaming hall management. Along this line, since September the Company has implemented the **SIEBEL system** in eight halls, allowing for an integrated commercial management of the member base, the automation of offers and the launching of commercial campaigns, in an aim to improve income and results.

In relation to **quality policies**, Codere has revalidated the certificate for its claims and complaints management system, complying with the Argentine certification standards IRAM 90600:2010 and IRAM –ISO 9001:2008 which deal with customer service and rewards programs.

In the area of **communication actions**, mention must be made of the launch of Bingos Codere on Facebook as a fanpage (in the month of March), which unifies the communication of all of the Buenos Aires gaming halls. During 2017, Bingos Codere reached over 3.3 million persons, and achieved over 58,000 fans. Throughout the year, three campaigns were launched, two of which were general, and one for EL CLUB ("Bingo", "Jugás conectado, jugás más" (Play Connected, Play More) and "Brindamos" (Let's Make a Toast)).

Mexico

In Mexico Codere operates 92 gaming halls. In 2017, activity in these halls was intense, with over 1,100 events being held, such as anniversaries, special days or theme parties.

Moreover, the Company promoted some 980 campaigns to communicate all of the hall promotions, over the radio, by printed matter, outside advertising, and advertising in commercial areas or in the halls themselves.

Among the campaigns most worthy of note during the year were the branding campaign for the YAK brand, and the campaign for the launch of the Codere Casino brand. On the one hand, Codere closed sponsorship agreements to promote the presence of the YAK brand on the FOX channels, and to have visibility in the principal sporting events of the channel. And on the other hand, the marketing area took charge of replacing the brand in all of the Codere Caliente halls, by the Codere Casino brand, closely supervising the process, with a closing date of the end of May. This action was reinforced by the holding of a welcoming event to promote and position the brand.

An advertising campaign for the YAK brand was also started, in support of all of the renovated halls, especially in the nearby Metrobus stations.

Italia

Codere is one of the largest gaming hall operators in Italy, with 11 gaming halls, one of which, the Re Bingo Hall, is one of the leading bingo halls on the European continent. The Company completes its leisure offering with restaurant and entertainment services.

With respect to the gaming halls, in 2017 the restructuring of the Vittoria and Mortara halls was completed, and the VIP VLTs of Novomatic were introduced. Moreover, redounding to customer service, a number of training actions were started in the halls, in an aim to unify management under a hall director and a hall manager, in addition to promoting initiatives to motivate hall personnel.

From a promotional perspective, the Company promoted a series of theme and gastronomic events, such as food tastings, entertainment activities or thematic gatherings (such as beer, pasta, pizza or wine festivals). Likewise, a series of music performances and cabaret shows with prestigious artists were held, as were promotional events for the launching of new products or VLT games, with presenters dressed up as characters from the games.

Throughout 2017, there were 40,300 persons registered in the CRM Loyalty Program through the Happy Club (which allowed customers to accumulate points every time they entered the hall). With the CRM Promotional Plan, 168,000 promotions were sent, and, in addition, special actions were carried out for customers of the halls. In 2017, there were also increased accesses to the Codere Italy website, with the number of followers reaching 7,400, thanks to the specific plans for promotion and customer-oriented actions in the areas surrounding the halls.

Spain

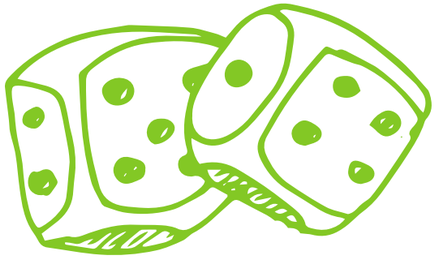
In 2017 Codere operated three bingo halls: the Canoe Bingo Hall, the Oporto Bingo Hall, and the Gran Sur de Leganés Bingo Hall.

Canoe is the most emblematic bingo hall, offering the best prizes in the capital city. With over 35 years of history, it provides 2,700 m2 for leisure and entertainment, with the broadest offering of bingo, sports betting, B3 machines, multi-gaming, and full restaurant service.

In recent years, Canoe has improved its infrastructures, making improvements to the accessways in both floors and from the parking area, renovating the reception area and opening up the main floor to natural light. In 2017 the Company installed a large 33 m2 screen on its main façade which has helped publicize the hall offering, making it more visible.

Gaming activity has been highly noteworthy, with good results being obtained in all products.

The sponsorship of the Real Madrid Football Club, coupled with intense promotional and marketing activity, with daily drawings and other actions in its various business lines (bingo, machines and sports betting), and gastronomy initiatives as well, have all contributed to driving hall activity and turnout during 2017.



The introduction of **dynamic bingo** in the month of May was an added incentive for customers, since it allowed for a more attractive and varied management of prizes, reinforced by the various communication campaigns carried out, through the "Maxpremios" campaigns. This launch was able to consolidate the leadership of the Company in the sector, making it a reference as opposed to the competition, especially in 2017, when a larger number of halls were opened in Madrid. Moreover, this past year the hall beat all records for bets placed on premise.

In addition to the Canoe Hall, Codere drives its bingo offering through the operation of its other halls, the Oporto Bingo Hall and the Gran Sur de Leganés Bingo Hall, both belonging to the Millenial Gaming Group, and incorporated into the Codere operation in December of 2017 and November of 2016, respectively. In these halls, the Company operates traditional and electronic bingo, sports betting, B1, B2, B3 terminals, in addition to roulette and bar and restaurant services.

Panama

In Panama Codere manages thirteen casinos, twelve of which are integrated under the CrowN brand. In addition, in November of 2017 it obtained a license to administer and operate the casino in the Aloft Hotel, under the Black Spade Casino brand, located in Panama City, consequently completing its expansion plan.

In September, Codere Panama renewed eight licenses about to expire, all under the Crown Casinos brand (Sheraton, Continental, Mirage, Riande Aeropuerto, El Panamá, Soloy, Washington and Nacional), including the renewal of the concession for the Hipódromo Presidente Remón racetrack and the Crown Hipódromo gaming machine hall, in the amount of $10 MM, extending activities in Panama until 2037, thanks to the agreement between Codere and the Gaming Control Board (JCJ). The rest of the halls, Guayacanes, Decameron and Radisson, will be renovated when their licenses have been in effect for 20 years.

Uruguay

Sofitel Montevideo Casino Carrasco & Spa is a building owned by the Departmental Government of Montevideo which, by means of a tender, awarded its operation for 30 years to Carrasco Nobile S.A, a consortium led by the Codere Group.

After a lengthy renovation process, it was inaugurated on 7 March 2013.This emblematic building -National Heritage of Uruguay-, is an icon in entertainment and gaming in Latin America. It dates from 1921, and was designed by the architect Louis Mallet. The building is located in Carrasco, an exclusive neighborhood of the city, opposite the River Plate, a mere five minutes from the Carrasco International Airport and very close to the city center.

This luxury hotel, which houses an *avant-garde* casino, has an area of over 3,000 square meters distributed on two levels. The casino has 23 gaming tables and 395 slots, with the most internationally recognized brands, and also has progressive slots joined to different groups of slots having diverse modalities, as well as stand-alone progressive slots.

At present, Sofitel Montevideo Casino Carrasco & Spa has 116 rooms, with 23 exclusive and different suites, an exclusive Spa (So SPA) of 500 square meters, and a different gastronomic offering in its restaurants: Restaurante 1921, which offers French cuisine; Thays Gallery, a place to enjoy the sunset; and El Bar, offering informal cuisine and located in the casino area. In addition, the building has the exclusive Doré Hall, a hall for parties and events accommodating 200 persons.

In February of 2017 an agreement was reached with the Montevideo local government amending the calculation base for the fee paid to operate the casino, allowing Carrasco Nobile (Sofitel Montevideo Casino Carrasco & Spa) the future projection of the business and its access to the VIP gaming segment. Furthermore, the **consolidation of a single management team** for the two companies, HRU and Carrasco Nobile, favored greater efficiency in operations and commercial management for both companies, and resulted, as well, in a saving in human resources costs.

Throughout 2017, its gastronomic offering was extended and redesigned, in order to attract new customers. Likewise, an offers system was implemented in accordance with the game volume analysis (CRM campaigns) and a campaign was carried out to re-categorize customers. In addition, Premium Poker Tournaments were implemented, with a prize purse of 196,0000 Uruguayan pesos and a drawing for a car.

Sports Betting

Codere has broad experience as a sports betting operator at the international level, carrying out this activity in Spain, Mexico, Panama, Uruguay Colombia and Brazil. In 2017, the number of Group sports betting machines rose to 5,581, a 40% increase over the previous year

Betting is a gaming modality which can be carried out in a variety of establishments, whether in specific shops or associated with other gaming modalities, such as casinos, bingos, sports venues, racetracks, bars, etc. Among the types of bets operated by Codere are those made in terms of the time they are placed (before or at the time of the event) or in terms of the number and type of bets (simple, accumulator –double, triple or multi- and multiple).

Codere began operating in this activity on its arrival in **Mexico** in 1998, introduced by its local partners. The majority of these betting shops are connected with gaming halls, making it possible to offer users a wide variety of gambling entertainment options.

In the **Panama** and **Uruguay** markets, betting shops are linked to the management of the Presidente Remón racetrack (Panama), and Hipódromo Nacional de Maroñas and Hipódromo Las Piedras racetracks (both in Uruguay). Since 2006, Codere has also been operating in **Brazil**, managing betting shops alongside the principal equestrian clubs of the country and offering customers the possibility of placing bets on national and international horse races.

In 2017 the Company launched the activity of Codere Apuestas in **Colombia**.

A secure business model

One of the major gaming achievements in 2017 was the obtainment by Codere Apuestas of the international certification **ISO/IEC 27001:2013**, which guarantees the management of the information security systems and secure work processes of the Company. The adoption of this standard, unprecedented in the gaming sector, is valid until 2020 and requires annual supervision. This certification reflects the Company commitment to continual improvement and transparency, as well as maximum collaboration with the public administrations in all of the jurisdictions in which it operates, in keeping with its objective to act in regulated markets, promoting 'responsible gaming', and offering all possible assurances to operators and customers alike.

One-year Anniversary sponsoring the Real Madrid Football Club

In 2017 Codere Apuestas marked its first anniversary as the Official Sports Bookmaker for Real Madrid, a strategic alliance with a partner with which it shares leadership, global dimension, and a commitment to responsible gaming, both on and off the playing field.

Spain

In **Spain**, Codere is the first company authorized to operate sports betting in the country, and on 16 April 2008 it inaugurated in Madrid the first on-premise sports betting office, in the Canoe Gaming Hall.

The business unit in Spain accounts for over 95% of the Group betting shops. In Spain, on-premise sports betting grew by 37.6% in 2017 with respect to the preceding year, with a total of 5,310 betting shops. Moreover, the 2017 figures are highly positive, both in terms of amounts wagered, as well as in *Gross Win* (resolved amounts wagered minus prizes).

Throughout 2017, in addition to maintaining a steady growth rate in regions already consolidated, Codere Apuestas began its operations in the Balearic Islands and Andalusia, in the wake of their regulation, and it expects to open 300 betting shops through strategic partners via corners, gaming halls and own shops.

An important development of retail channel establishments and own establishments

The retail channel marketing activity was vigorously promoted in 2017. The Company has started an ambitious research plan to increase its knowledge of its customers, to measure their experience in the establishments and to identify the key factors and variables determining their experience, which in 2017 led to the development of segmented promotional activities to encourage certain markets, events and establishments having potential. Moreover, to identify locations having the greatest potential, a model of predictive geolocalization was used.

The exploitation of the image of the Codere Apuestas sports sponsorships (Official Sports Bookmaker for Real Madrid and Basque Pelota) can also be seen in the various materials, furniture and merchandising material this year.

Part of the growth in points of sale during the year took place through its **own shops**. This past year 24 LBOs were opened, as well as seven gaming halls. This type of establishment, which began to be opened in 2016, has a more innovative look & feel which includes a new image, furniture and more screens to enjoy sporting events live, and also incorporates WIFI. The new establishment format has required over 90 persons to join the shop teams.

Likewise in 2017, Codere Apuestas started a pilot project to introduce hospitality services through **Bar&co**, based on finger food which allows customers to enjoy a snack and a beverage while at the Codere establishments.

Moreover, in 2017 a restyling was undertaken of the layout in the decoration of the shops and halls, giving rise to a change in signs (Codere brand), with new graphics with the theme of the Real Madrid Football Club being brought to the halls, and integrating the communication of codere.es and the Codere card. In 2017 new uniforms were also designed for hall employees.

A year of intense promotional activity

In 2017 the Company took significant commercial and promotional action, especially in extending the catalogue for key sports such as football (soccer), tennis and basketball.

Throughout the year, **bonuses** were also promoted, and the **super quota promotions** catalogue for football games of interest was extended as well, surpassing the targets of recruitment, retention and reactivation; and likewise, the **promos** for other sports such as NBA, European basketball, horse races, dog races, baseball, NFL and volleyball.

The football off-season was promoted through the "**Chiringuito Codere**", a weekly newsletter detailing all of the week's promotions. In October "super-promotions" were started for active members as well as for new users ("10 days with VAT", "FATBET" or "Fat is Classic").

In addition, **recruitment campaigns** were started, such as the "Be Demanding campaign", which is the first 360 campaign (which includes in its strategy television, digital media, and betting shops) linking the Real Madrid Football Club and Codere Apuestas.

Another noteworthy campaign is: the "José Mercé Campaign" ("Football Flamenco School") or the "I knew it" campaign ("If you know it and you don't bet, it hurts") which, in addition to being shown on TV and in digital media, was also seen in a commercial with the player Arbeloa. Thanks to this spot, Codere received recognition for the best commercial in the month of September, the prelude to the awards for "The best commercials for the year 2017".

The sponsorship of the Real Madrid Football Club gave rise to numerous activities for members, such as VIP experiences, access to training sessions, clinic, games away from home, key games in other countries, etc., activated from various marketing and sports betting initiatives. This, in addition to other special activities, including the Codere Cup or interviews with Real Madrid players. Moreover, in 2017 Codere Apuestas signed another sponsorship agreement, becoming the "Official Sports Bookmaker for Basque Pelota" until 2020.

Mexico

Codere operates 89 betting sites in Mexico (in the gaming halls managed by the Company) offering all types of sporting events, facilitating users with a wide variety of gambling entertainment options. Codere operates sports betting from the Hipódromo de las Américas racetrack through Sports Book and Codere Apuestas.

By means of Sports Book, customers are able to bet on all types of national and international sporting events (dog races, football, American football, baseball, hockey) and on horse races in the principal US racetracks (Santa Anita, Hollywood Park, Lone Star Park, Los Alamitos, Sam Houston).

The Company also operates sports betting under the Codere Apuestas brand, offering a great variety of markets and types of bets (including games with live betting, first and second half, full game, hi/lo, etc.). Parallel to its offline activity, in October of 2016 the Company launched its online sports betting operation through the webpage www.codere.mx.

Panama

Codere operates eight betting sites in Panama (in the gaming halls managed by Codere, –without including the 44 associated agencies–, which are only for equestrian betting), through the brand Turff Bet & Sport Bar and Codere Apuestas.

These betting sites offer a series of technological and human resources allocated to attracting and operating cross bets in equestrian events and sports competitions, as well as games permitted by law, with real-time audio and video transmission. They are equipped with wifi – wigo, offering customers the ability to access the data required for live betting through their mobile phones.

Colombia

On 14 November 2017, after more than four years of previous work, Codere Colombia S.A. was the fifth company in the country to operate an online sports betting platform with the installation of *All in One* terminals in each of it halls.

Codere Apuestas is present in the gaming halls of CrowN Casinos, Mundo Fortuna, Fantasía Royal and Stars Casino Games, including halls in its managers network and new points of sale with new distributors.

Among the key elements of its business model, Codere highlights its capacity to adapt to the local market (for instance, in the national football league *la Liga Águila*), its great variety of bets, and, in addition, the fact that it has its own professional team of experts in key areas (risk management, technology, trading, marketing and contents, etc.).

The Company works to maintain its position of leadership in entertainment in the country in this new context of the sector. One of its next challenges will be to exploit other channels authorized by Coljuegos, such as bars, restaurants, hotels, funds collection and refill services. Likewise, looking towards 2018 it aspires to cover nearly 1,600 points of sale in the country.

Uruguay

In the Uruguay business unit, the betting sites are linked with the management of the Hipódromo Nacional de Maroñas racetrack and the Hipódromo Las Piedras racetrack. The Company manages 27 betting shops in the country which offer simulcasting.

In 2016, Codere continued to directly manage these establishments, in addition to providing significant support to the three racetracks in the interior of Uruguay (Paysandú, Colonia and Melo). All of these make up what is known as SINT (National Integrated Turf System), an important commitment by the Government to revitalize the country's equestrian industry, with bets being able to be placed from these racetracks, the SINT and from the best racetracks in the exterior.

Racetracks

In 2017 Codere operated four racetracks: Hipódromo de las Américas (Mexico), Hipódromo Presidente Remón (Panama), as well as Hipódromo Nacional de Maroñas and Hipódromo Las Piedras (both in Uruguay)

The horse racing business has evolved over time. Currently, together with horse racing and betting, the Company also operates under the *racino model,* which allows for the installation of gaming terminals at racetracks or in facilities associated with the racetrack, in an aim to contribute to financing this activity.

Thanks to its experience in the sector, and to excellent management procedures, the Company provides successful formulas to revitalize this activity which, at the end of the nineties, was in recession in Latin America.

The Hipódromo de las Américas (Mexico), Hipódromo Presidente Remón (Panama) and Hipódromo Nacional de Maroñas (Uruguay) racetracks form part of the International Federation of Horse Racing Authorities (IFHA), a prestigious international organization in charge of promoting good regulation and best practices internationally in horse racing matters.

Mexico

In March of 1943, President Manuel Ávila Camacho inaugurated the Hipódromo de las Américas racetrack, north of Mexico City, in an area of nearly 60 hectares of federal land. In 1997, the CIE Group was awarded the concession to operate the property, and after a 3-year renovation, it reopened its doors to offer horse racing.

In the 2017 season, it offered more than 140 events, nearly 1,400 competitions such as *the Hándicap de las Américas*, the Mexican Triple Crown (comprised of the Mexican Jockey Club Stakes, the National Grand Prix and the Mexican Derby), the XI Copa Criadores (for thoroughbred horses) or the Serie Hípica del Caribe (one of the most important horse racing events of the region, which includes the Copa Hípica del Caribe and Copa Dama del Caribe, which closed this edition with the triumph of the Mexican horses).

In 1943 it was planned to organize a major race each year, the great "**Handicap de Las Américas**", the most important horse racing event of the year, with the participation of horses from all over the continent, despite numerous difficulties such as transportation distances, and the time required for the horses to become acclimated to the altitude of Mexico City (2,240 meters above sea level). This event came to be "*the great race of Mexico*", the race which everyone, –owners, jockeys, trainers–, wants to win at least once in their life. In 2017 the LXXII Edition was held, and won for the fourth straight time by Moisés González.

Panama

On 4 October 2005, the company Hípica de Panamá, S. A., a subsidiary of the Codere Group, started its administration of the **Hipódromo Presidente Remón**, the only active racetrack in Central America.

Following the renewal of the contract with the Panamanian State for a 20-year extension, a series of strategies to revive the Panamanian horse racing industry are implemented.

Currently, the racetrack has over 1,350 horses and nearly 300 direct employees. Over 5,000 families live off of the Horse Racing Industry in Panama. In addition, the Hipódromo Presidente Remón has a network of 50 horse racing agencies, which allows for bets to be placed in the best racetracks in the world and in national races, and some of them also offer sports betting.

As part of its CSR, the Codere Panama Group subsidizes in its entirety the jockey training academy **Academia Técnica de Formación de Jinetes Laffit Pincay Jr.**, recognized by the Ministry of Education, from which nearly fifteen new jockeys graduate each year. Through the implementation of the **Athletes' Factory** project doubled the number of students this year. Training takes place for two years, under a method which combines academic studies and practical training sessions, preparing these young men to be at the front line of professional turf.

The project also provided the **creation of dormitories for the academy students**. The new dormitories were inaugurated this past 8 April 2018, and was attended by authorities from the Gaming Control Board (JCJ) the National Institute for Professional and Human Development Training (Inadeh), the Ministry of Health (MINSA), the Ministry of Education (ME), the Primary Health Care Local Units ULAPS), Codere Panamá managers and the mass media. The Academia Técnica de Formación de Jinetes Laffit Pincay Jr, recognized as the "athletes' factory" training center, has given Panama the title of "Cradle of the Best Jockeys in the World".

The Clásico Presidente de la República, held on 3 June, is revered as the most important sporting event in the country, and the winner of this edition was Promise To Power, owned by Stud El Águila, represented by Eric Antonio Delvalle.

Codere Panama managers welcomed the various government authorities headed by ministers, directors and ambassadors from more than ten countries and the Panama Tourism authority.

Over ten thousand people attended the Hipódromo Presidente Remón to enjoy this great racing and activities event.

Of interest is the increase in national horse-racing bets in Clásico Presidente over the last few years, going from $187,389.07 (2016) to $242,383.95 (2018); a new record has been set in racing bets in the Republic's Clásico Presidente.

It In addition, and in order to give greater transparency to the sport, together with Horse Owners' Society and the Gaming Control Board, the Hipódromo Presidente Remón sends doping samples of the horses participating in the local races to recognized certified laboratories abroad. This measure has managed to achieve more transparency in the controls of the horses.

Uruguay

The **Hipódromo Nacional de Maroñas** racetrack is one of the most important turf venues of the region. In 2003 HRU was awarded the tender for its management, marking the rebirth of the turf industry in Uruguay, which today directly and indirectly involves around 45,000 Uruguayans. In line with the *racino model*, HRU activity in Uruguay is presently concentrated in the metropolitan area of the country, where, in addition to operating the racetracks of Maroñas and Las Piedras (2012), it has developed a horse race betting system, SINT (National Integrated Turf System), with the racetracks in Paysandú, Melo and Colonia, and manages entertainment halls.

The re-positioning of horse racing at the international level was one of the objectives of HRU S.A. These efforts were rewarded in 2014, when the IFHA (International Federation of Horseracing Authorities) once again awarded Uruguay, granting to its principal areas of competence the maximum category of world turf.

In 2017 a new milestone of the Hipódromo de Maroñas was reached, with completion taking place of the HRU S.A. largest investment cycle since the reopening of the racetrack in 2003, with the construction of a new Villa Hípica, with a lookout point and trainer services. The completion of a grass track -inaugurated for the 2018 Longines Latin American Grand Prix -, together with a new a new starting gate with 16 stalls, were among a series of improvements, which included a photovoltaic electric power plant, and the inauguration of an auxiliary track for training purposes. These new infrastructures make the Hipódromo Nacional de Maroñas one of the racetracks most highly valued by the various actors of the South American turf circuit.

Among the numerous horse racing events worthy of mention during the year was the 119th edition of the **José Pedro Ramírez Grand Prix** held on 6 January, recognized both locally and internationally for the participation of the most highly awarded horses, and the presence of outstanding personalities from the world of turf, politics and entertainment. It was a record-breaking event, breaking the record for attendance -with over eighteen thousands persons- as well as that of amounts wagered -nearly 42 million pesos.

Online Gaming

Year after year Codere consolidates its commitment to online activity, responding to new customer demands and driving its development in the countries in which it operates, and where this is legally permissible

The Group digital strategy advocates omni-channel entertainment, allowing users both an on-premise and online experience, which, in the case of Spain, is a great competitive advantage, given its extensive gaming hall network. Moreover, the Company works to develop new, more accessible formats, and collaborates with strategic partners, making it possible to improve customer experience with an attractive gaming offering.

In 2017, Codere carried out its online activity in three markets: Spain, Mexico and Colombia.

Spain

In the wake of previous experiences which allowed the Company to consolidate its project, Codere started its activity in Spain under the auspices of Spanish Gaming Regulation Law 13/2011, of 27 May.

At the end of 2014, Codere Apuestas launched its Web App codere.es in Madrid with great success, with mobile device activity being noteworthy. Subsequent to this, Codere would go on to develop its activity under national licensing.

The Company works in close collaboration with several gaming solution suppliers, in an aim to develop new products and services in the Spanish market. In 2015, it incorporated online slots into its entertainment offering, and, at the end of 2016, casino games. In September of 2016, Codere launched in Spain its new mobile version (iOS and Android) and PC App, with a totally new image, offering greater advantages over the previous version and improving customer experience.

In 2017, Codere implemented numerous advantages for users in its online gaming platform, which has made it possible to improve results in customer recruitment campaigns. Likewise, the processes have been optimized for legal verification of identity through the application, and digital fingerprint login has been incorporated into the new native applications. In addition, the gaming page has added an informative section with active promotions for users, and casino game cross-selling offers have been activated, aimed at players.

Mexico

The Company started its online operation in Mexico in October of 2016, under the brand of Codere Apuestas (www.codere.mx), with a very complete gaming offering which covers a large number of sports (from American football to motorcycle racing) and has numerous attractive markets. Likewise, Codere completes its portfolio with online slots, online casino games and video bingo.

In March of 2017, Codere Mexico signed an agreement with Evolution Gaming, a world leader in gaming with a streaming live dealer, for the exclusive provision of Live Casino in Mexico. Thanks to this alliance, Codere began to broadcast the complete portfolio of live casino games with prize to its customers for PC, tablet and smartphone, for an initial period of two years.

In July of 2017, Codere drove its online marketing activity, and started a 100% digital recruitment campaign in Mexico, with the launch of a welcome bonus. The Company also activated a number of activities, including SEM, Facebook, Native Ads, and emailing activity, generating an average of over 1,000 new users per week.

Colombia

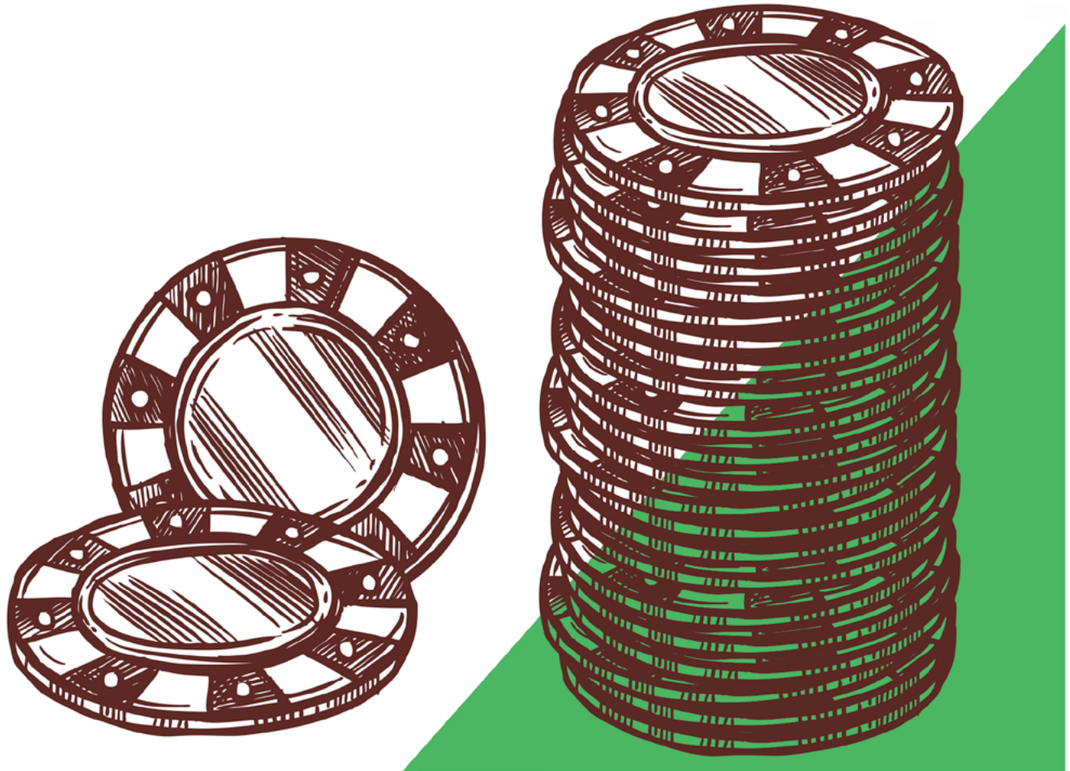
Colombia is the leading South American country in regular online gaming, in the wake of the approval of Law 1753 of 2015, and of subsequent regulations. In November of 2017, the Company started its sports betting activity through the concession of the Coljuegos regulator -for five years- which authorizes it to operate through the internet, mobile and on-premise gaming channels, through the Codere Apuestas brand, extending its gaming portfolio (gaming halls, bingo halls and casinos).

The Company will have a broad omni-channel gaming offering through www.codere.com.co, by means of an application optimized for Android and IOS, and also by means of its on-premise gaming network.

Other countries

Currently, the Company is continuing to work -pending the regulations underway in the group countries- to drive the legal development of this activity under the Codere brand.

Corporate Governance



Corporate Governance

Codere complies with the Good Governance Standards aimed at protecting the interests of the Company and its shareholders, and monitoring the creation of value and the efficient use of its resources.

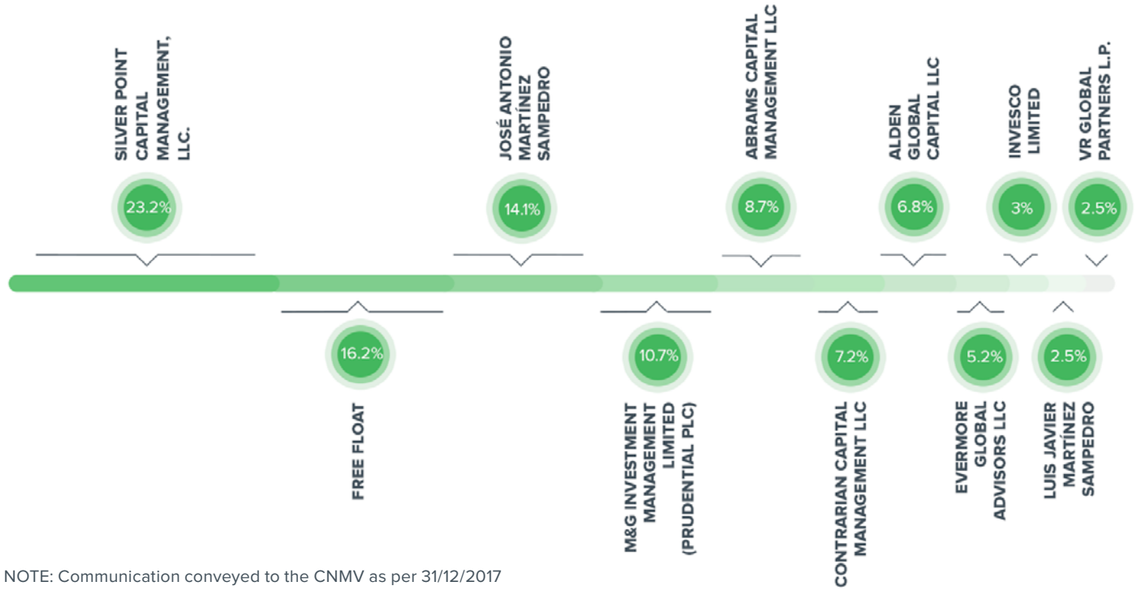
Codere Shareholder Structure

By going public in October of 2007, Codere increased its shareholder structure, and was able to access greater financing. After a number of years in which the Company had been immersed in an arduous process of negotiation to restructure its debt, the Group reached certain agreements with its creditors. During 2016, the execution of said agreements finalized, giving way to a new shareholder structure.

At 31 December 2017 the company had a free float of approximately 16.22%. The remaining share capital was distributed among several significant shareholders, as declared to the Spanish Securities Market Commission (CNMV). Consequently, the chairman of the Board of Directors, Mr. José Antonio Martínez Sampedro, held 14.07% of the share capital (both through direct shareholdings, as well as indirectly through the company Masampe S.L.). The deputy chairman of the Board of Directors, Mr. Luis Javier Martínez Sampedro, held 2.48% of the share capital (both through his direct holding as well as indirectly through Recreativos Metropolitano S.L. and M Global Solutions-Global Assets Brisa). Other directors held 0.01% of the share capital, and 0.06% of the share capital was held as treasury stock.

The breakdown of the significant shareholdings communicated at 31 December 2017 to the CNMV is the following:

Distribución del Capital Social (%)



NOTE: Communication conveyed to the CNMV as per 31/12/2017

Governance Bodies

The General Meeting of Shareholders and the Board of Directors, with executive directors and external directors, are the maximum governance bodies of the Group.

The year 2017 was an intensely active business year in Corporate Governance matters. Accordingly, three General Meetings of Shareholders were held: in May, June and October.

With respect to the Ordinary General Meeting, held on 29 June 2017, in addition to ordinary matters related to the approval of the annual accounts, the application of income and the management of the Board of Directors, all of the above in reference to the year 2016, a consultative vote was taken on the *Annual Report on Directors' Remuneration*, likewise with respect to 2016, with said Report being approved by 99.8% of the voting share capital present or represented by proxy. This General Meeting was attended by 92.48% of the share capital present or represented by proxy.

The Extraordinary General Meeting of Shareholders held on 11 May 2017 resolved to increase the share capital by means of a credit offset, in the amount of three million seven hundred and seventy-one thousand eight hundred and eighty-nine euros and sixty euro cents (3,771,889.60 euros), through the issue of eighteen million eight hundred and fifty-nine thousand four hundred and forty-eight (18,859,448) new ordinary shares of Codere S.A., each having a par value of 0.20 euros, with an issue premium of 0.0651191 euros per share, of the same class and series as those already in circulation. Full payment of the par value and issue premium of each new share subscribed was made by means of offset of the credit which Houlihan Lokey Emea LLP held with respect to Codere S.A. derived from the agreements adopted during the financial restructuring process which the Codere Group finalized in 2016. This General Meeting was attended by 85.96% of the share capital present or represented by proxy.

On 16 October 2017 Codere S.A. held another Extraordinary General Meeting of Shareholders, in which it was resolved to merge and cancel the shares into which the share capital was divided, exchanging these for newly issued shares, in the proportion of two new shares for every forty-three pre-existing shares, and raising the par value of the shares from 0.20 euros to 4.3 euros, without changing the share capital amount. In the wake of the resolution by the shareholders' meeting to merge these shares, the number of resulting shares was 118,538,326. Attendance at this General Meeting was the highest of the year, with 93.38% of the share capital being present or represented by proxy.

During the year 2017 the Board of Directors was comprised of nine directors: Mr. José Antonio Martínez Sampedro (Chairman of the Board), Mr. Luis Javier Martínez Sampedro (Deputy Chairman of the Board), Mr. David Reganato, Mr. Timothy Lavelle, Mr. Manuel Martínez-Fidalgo Vázquez, Masampe S.L. (represented by Mr. Pío Cabanillas Alonso), Mr. Norman Sorensen Valdez, Mr. Matthew Turner and Mr. Joseph Zappala.

Among its functions, the Board of Directors, notwithstanding its management and representation competence, has taken on, as its focal point, the mission to approve Company strategy and the organization required in order to implement this, and likewise to supervise and oversee Management compliance with the objectives set out, seeing to it that Management respect Company interests.

The Board meets with the frequency called for in view of Company interests, or as mandated by law or the Articles of Association. During 2017, the Board of Directors met eight times, and on one additional occasion adopted resolutions in writing and without a physical meeting.

In accordance with the laws in force, and, in particular, with the recommendations contained in the Listed Companies' Code of Good Corporate Governance approved by the Spanish National Securities Commission (CNMV), three committees are set up within the Board of Directors, each having its specific functions: the Audit Committee, the Appointments, Remuneration and Corporate Governance Committee, and the Compliance Committee:

- **The Audit Commitee** has as its essential task that of serving as support to the Board of Directors in its tasks of financial and risk supervision, and, among other duties, that of supervising the functioning of the Company Audit Department, establishing the Codere financial processes and control regulations, and reporting on the annual accounts and other financial statements of the Group.

  During 2017, the Audit Committee was made up of two independent directors (a chairman and one member) and one nominee director (member).

- **The Appointments, Remuneration and Corporate Governance Committee**, mandatory for listed companies in accordance with the Capital Companies Act, has the nature and functions which the Capital Companies Act reserves for it. Among the competences of the Committee are: to evaluate the competence, knowledge and experience of the directors and report on their appointments and resignations, and to do likewise in regard to Company senior executives; to propose and oversee the company remuneration policy; and to examine compliance with the Internal Regulations for Conduct with the Securities Markets, making proposals for their improvement and supervising compliance with the Corporate Governance rules applicable in said regard.

  During 2017, this Committee was made up of two independent directors (a chairman and one member) and two nominee directors (members).

- **The Compliance Committee**, set up by the Company in use of the freedom granted to the Board of Directors by the Capital Companies Act to create specialized committees within said body, for most of 2017 was comprised of three directors, one of which was in the category of Other External Directors (the chairman), and two of which were nominee directors (members). In the first two months of the year, the Committee Chairman was an independent director, losing said status in February of 2017 since he had held said office continually for over twelve years. Among the principal functions of this Committee are control of Group compliance with Spanish or foreign gaming regulations, and likewise the evaluation of the internal control systems of the company in relation to gaming and anti-money laundering obligations.

The composition of the Board of Directors and the Codere Committees from the dates on which the changes in these took place, and at year-end 2017, is that shown in the following tables:

Breakdown of the Board of Directors at May 2018

Independent chairman	D. Norman R. Sorensen Valdez
Nominee directors	D. José Antonio Martínez Sampedro D. Luis Javier Martínez Sampedro Masampe S.L (representado por D. Pío Cabanillas Alonso)[1] D. Manuel Martínez-Fidalgo Vázquez[2] D. David Reganato[3] D. Timothy Lavelle[4]
Independent director	D. Matthew Turner

(*)Mr. Luis Argüello Álvarez Non-Director Secretary
Mr. Joseph Zappala was a director until 10 May 2018
1 Masampe S.L. represents the shareholder José Antonio Martínez Sampedro.
2 Represents or has ties with the shareholders Abrams Capital Management L.P., M&G Investments and SilverPoint.
3 Represents the shareholder Silver Point Luxembourg SARL.
4 Represents the shareholder Silver Point Luxembourg SARL.

Members of the Board of Directors' committees at May 2018

The Audit Committee is comprised of:

D. Norman R. Sorensen Valdez	Chairman
D. Matthew Turner	Member
D. Timothy Lavelle	Member

The Appointments, Remuneration and Corporate Governance Committee is comprised of:

D. Matthew Turner	Chairman
D. Norman R. Sorensen Valdez	Member
D. David Anthony Reganato	Member
Masampe S.L.	Member

The Compliance Committee is comprised of:

D. Matthew Turner	Chairman
D. Manuel Martínez-Fidalgo Vázquez	Member
Masampe S.L. (representado por D. Pío Cabanillas Alonso)	Member

Good Governance Standards

The Standards of Good Corporate Governance are essential for the development and growth of the Group. Codere centers its Corporate Good Governance practices around three basic aspects: the Control and Procedures System, Standards of Compliance, and monitoring of the listed companies' Code of Good Governance

Codere considers that the establishment of Standards of Good Corporate Governance, taken on by company governance, is essential for Group development and growth. Codere focuses its Good Corporate Governance practices on three basic aspects.:

- **Control and Procedures System:** this aims to provide the Group with a fixed organizational structure and corporate culture, applicable to all of the entities regardless of their area of influence, setting up formal action mechanisms, which, rather than bureaucratize, aim to establish guidelines for controlled delegation, and to consolidate a culture of effective management, consequently achieving the strategic cohesion of the Group.

  The Procurement Office is a tool introduced in an aim to provide a concrete structure for the purchasing and contracting processes, establishing an action mechanism which promotes transparency, ensures the concurrence of suppliers and results in a reduction of acquisition costs for the Company, at the same time that it promotes Good Corporate Governance. From the time it was created, in mid-2009, the Procurement Office has managed over 650 significant procurement transactions at the corporate level, with a reduction in purchasing costs. In 2011 its implementation was completed in the various geographical areas in which the Company operates, and in 2018 the reformulation and introduction of a new joint Procurement Office is planned for the Spain business unit and the Corporate Departments, on a technological platform coupled with Company management systems, which will make it possible to attain high efficiency in all processes and procedures.

- **Standards of Compliance:** these Standards play an essential part in showing the special commitment the Group has to good business practices, in a sector as regulated and sensitive as is the gaming industry. The Group strategy in this respect is to go beyond what is called for by regulations and specific laws, and make an impact on the true spirit of fair play and responsible gaming. Specifically, the Group is especially committed to strict compliance with all anti-money laundering and anti-terrorist financing laws, as well as the applicable gaming regulations. To supervise these aspects, the Company has a Corporate Security and Compliance Department which has among its duties, that of monitoring and controlling the application of the Codere Group Code of Ethics and Conduct, managing and supervising the company and Group whistleblower channel, a mechanism created to communicate the commission of irregularities or any type of acts which violate the law or the performance standards of the Ethics Code. During 2017 the whistleblower channel registered 95 denouncements, processing and resolving a total of 90, with five of these still pending. The Corporate Security and Compliance Department periodically reports to the Compliance Committee of Codere S.A. the principal risks detected regarding compliance, in each one of the countries, to subsequently forward said information to the Board of Directors.

- **Standards of Good Governance:** During the year 2017, Codere S.A. continued to deal in depth with good practices in the sphere of Corporate Good Governance. After approval in 2016 of the new Internal Regulations for Conduct in the Securities Markets, in 2017 the Board approved the protocol which specified the adequate procedure to update files on affected persons and confidential operations. Moreover, and for the first time, in 2017 Codere S.A. approved and made accessible to the shareholders, on the occasion of the Ordinary General Meeting, its *Corporate Social Responsibility Report* previously approved by the Board of Directors.

People Management

The new People Management

The Codere Group is facing a new stage, in which it is redefining its strategic focus. The fundamental objective is to create greater value for the Company, optimizing its profitability.

To achieve this ambitious goal, the organization's capabilities as well as its competitive position must be improved. Consequently, Codere has developed a transformation project based on three pillars: **business and strategy, organization, and operating model** in order to position itself more competitively.

In this context of transformation, one of the first changes has been the regionalization of the business units. Regionalization affects the operating areas and certain support areas, such as IT, DEF, Auditing, Safety and People, generating a lighter transversal central structure which is more dynamic when it comes to decision taking and introducing projects and operating improvements.

The result of this organizational transformation has been the creation of three major regions:

- *Europe*, integrating the operations of Spain and Italy.
- *Northern Cone*, in which the regionalization already underway in Mexico, Panama and Colombia is extended.
- *Southern Cone*, grouping together the business units of Argentina and Uruguay.

Faced with this scenario of transformation and digital changes which are increasingly rapid and disruptive, traditional Human Resources Management must design a new "*ecosystem*" to facilitate this process of change for employees and the company. Person-to-person management processes, together with a "customer-oriented" transversal strategy, are seen to be a source of competitive advantage for the Group. As an initial measure, the new ***Codere People Management*** has been created, the mission of which is to be the catalyst for such change and transformation, contributing value to the business and to people, efficiently and sustainably.

A priority has been the design of a new strategic plan called "***People 2020***", which lays down the general guidelines for this process of transformation and generation of an ecosystem of collaboration and efficiency in the Group. "*People 2020*" defines a new strategic positioning, closer to Company needs and to the current digital environment, establishing new avenues of action where closeness to employees, talent and process simplification take on greater importance in the face of scenarios of increased responsibility and future challenges.

Codere has a young, multi-national staff, employing equal numbers of men and women. At year-end 2017, the Codere Group was made up of 13,339 employees (579 fewer than in 2016). Nearly three out of every four workers (74.5%) are under the age of 40, which shows that the Codere workforce as a whole is getting younger, given that in 2016 this percentage was at 74%.

Codere, in the exercise of its Corporate Social Responsibility with respect to its labor force, encourages stable hiring which promotes gender equality and non-discrimination. In this regard, the Company understands that diversity has a positive impact on the general development of the business, on innovation and on competiveness. This commitment is reflected in the following data:

Codere Corporate Social Responsibility in the workplace is reflected in respect and encouragement of stable hiring, which promotes gender equality and non-discrimination. In this regard, the Company understands that diversity has a positive impact on the general development of the business, on innovation and on competiveness. This commitment is reflected in the following data:

NON-DISCRIMATION ON THE BASIS OF GENDER

In 2017 the same balance was maintained in the proportion between men and women employed with respect to 2016. At year-end 2017, 40.59% were women (5,414 units) and 59.41% were men (7,925 units).

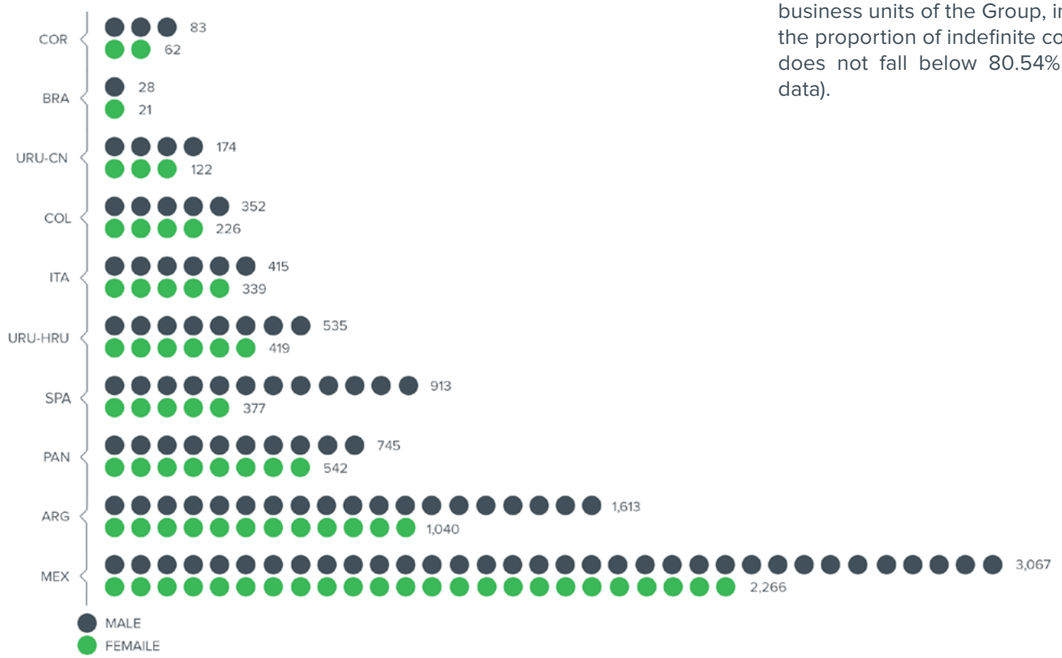
NON-DISCRIMATION ON THE BASIS OF NATIONALITY

The Codere staff is comprised of workers of 41 nationalities, of which more than ten reach or exceed 20 employees.

COMMITMENT TO STABLE EMPLOYMENT

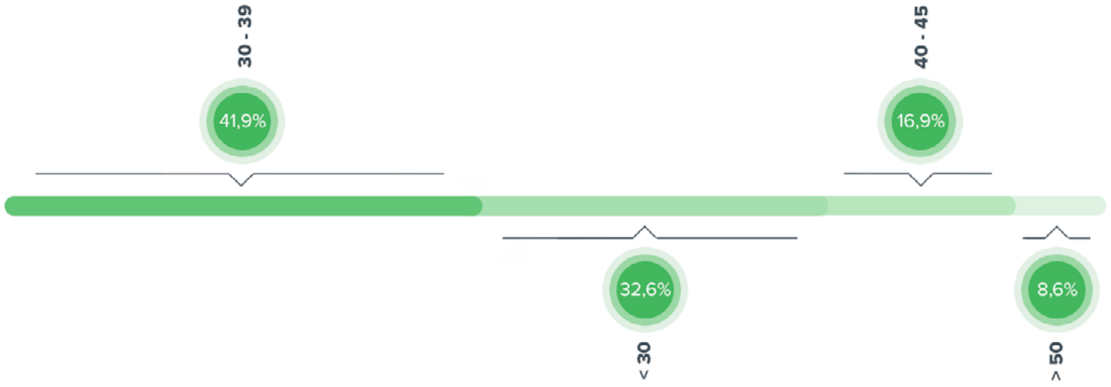
The Company continues to show signs of its commitment to stability in its contract relations with its collaborators. In 2017 Codere maintained the level of indefinite contracts with respect to 2016, and at year-end 91.75% of contracts were indefinite as opposed to 8.25% of temporary contracts. This is a very high average among the various business units of the Group, in which the proportion of indefinite contracts does not fall below 80.54% (Spain data).

Distribution of Codere Staff by Gender



NOTES: As of the 31st of December 2017

Distribution of Codere Staff by Age



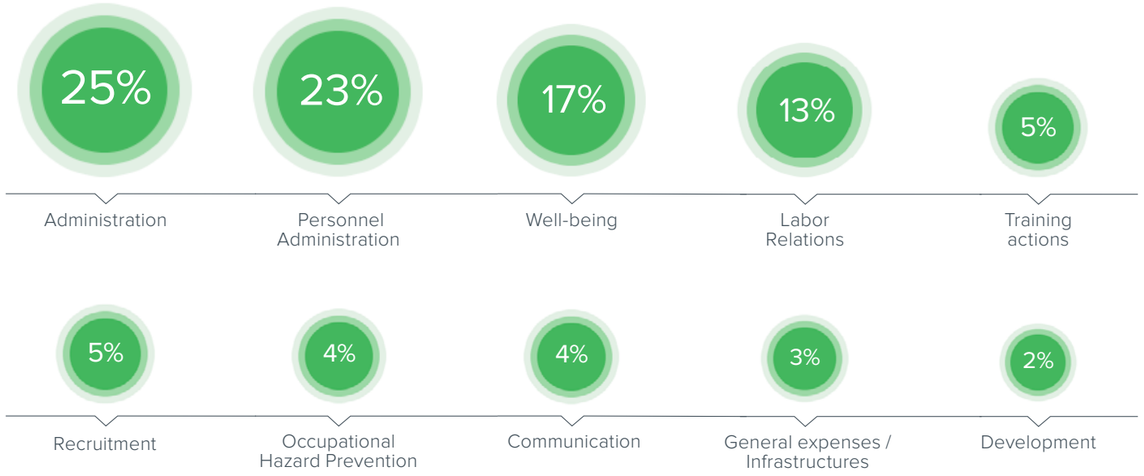
NOTES: As of the 31st of December 2017

Employee development, well-being and training

Development, well-being and training are the pillars which sustain the work carried out by the various Codere People departments (the name given to the Human Resources areas in 2018) for their collaborators. These are three columns which show the interest which the Company has for the present (well-being) and future projection (development and training) of its employees. Well-being is reflected in initiatives such as flexible work hours, facilities for getting to and from the workplace, areas for employees at the various head offices with cafeteria service, or life insurance coverage for 100% of the staff, as occurs in Mexico.

Training and development are materialized through initiatives such as courses offered during working hours, at the head office itself -among these courses, the latest new developments in digitization-, the implementation of programs aimed at detecting workers' aptitudes, and the offer of the preparation required to develop their future potential.

Budget distribution for People Management by item

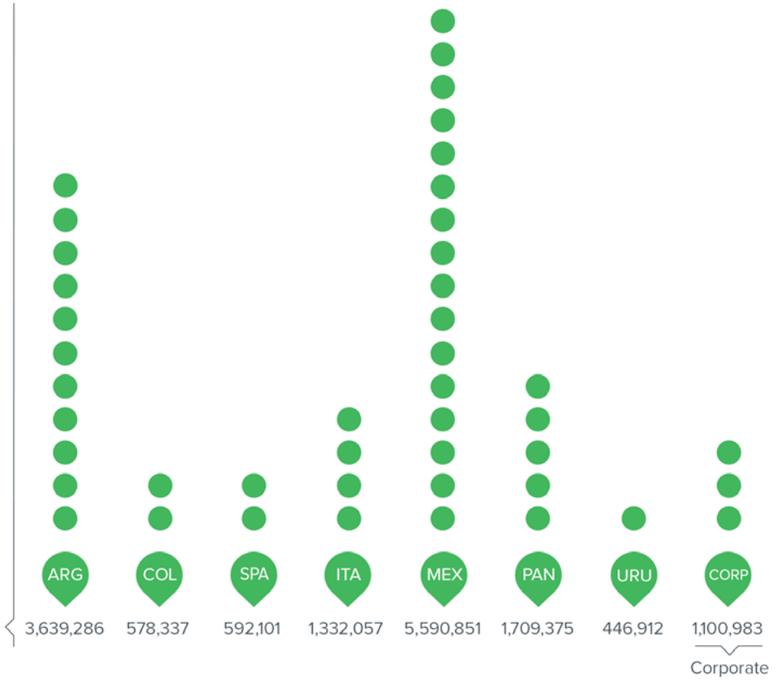


Excluding the allotment for wages and all matters related to the business units of Brazil and Uruguay, the People Divisions had a budget of 14,542,988 euros for 2017, a budget equivalent to 1,221 euros per employee. This has meant a considerable increase (+15%) with respect to the 12.6 million euros budgeted in 2016. This positive trend is also seen in the expense accumulated during 2017, which increased by 10% with respect to the previous year (from nearly 11.4 million euros in 2016 to 12.56 million euros in 2017). 15% of the expense in the People area during 2017 went to well-being actions.

The year 2017 was particularly intense with respect to initiatives in this area in the Group People departments. From Corporate headquarters, the *2017 Corporate Training Plan* was launched and executed, combining technical training with the development of Critical Success Factors and languages, in an aim to provide employees with the knowledge they require in order to respond to the needs of the various countries.

Likewise in 2017, the Company conducted an analysis of travel insurance policies at the global level, thereby guaranteeing the security of its employees when travelling abroad.

Distribution of the People Division Budget by Country



A Clear Commitment to Latin America: the Regionalization of the People Departments

Codere's commitment to its workers entailed an important change in 2017 in organizational terms in the region of Latin America. In April of 2017, Deysi Liñán, People Director in Panama, also took charge of the People Division in Mexico. As a result, since 2017, Mexico and Panama share their Director and *People Business Partner,* where, through their PBP team, constant meetings are held with the Operations Division of the region (which also includes Colombia) in order to detect needs and carry out actions to align their respective strategies. The objective is to standardize processes and initiatives for workers in these three countries, and in this regard an analysis has already been made of employee policies and procedures, to set up a common policy in Mexico, Colombia and Panama in order to prevent unequal treatment of workers.

In this context, in 2017 the People Divisions of these three business units created the *Visión 2018* project, in an aim to strengthen the integral development of employees and prepare them to take on the challenges which await the region starting next year. This initiative revolves around three main aspects:

TRAINING AND DEVELOPMENT

This pillar of regional action with respect to People in Colombia, Mexico and Panama is built through the 2018 Growth and Development Program, with initiatives which aim to add value to the operation, generating improvements in the productivity, management and professional development of employees. In this regard, a new edition of the initiative has been started whereby managers and operating officers of Codere Mexico exchange positions with Panama and Colombia, to continue in this way to acquire a more in-depth knowledge of the competitive tools of the Mexican team, and to exchange best practices.

WELL-BEING

In this area of action we can highlight the Warrior Spirit program, started in 2017 in Mexico, and which seeks to reward employees for attaining business objectives.

COMMITMENT AND RESULT

This pillar is based on an adjustment of the results remuneration system which makes it possible to improve productivity in the región.

Moreover, continuing along the line of the action taken in Mexico in 2016, in 2017 Panama and Colombia planned the development of the Capacity Evaluation System (CES) for the purpose of identifying talent in the organization, which, in turn, makes it possible to design a training plan in line with the employee needs. Early in 2018, Spain, Italy and Uruguay have also gradually joined.

Development of Codere People in Group Countries

In 2017 the People Division drove its key action in the various regions through numerous initiatives which make up the three major lines of action of *Visión 2018*

In Europe

The business unit of **Spain** has made a special commitment to the development of its workers, putting into practice the *Contamos contigo (We Count on You)* project. This is an internal promotion procedure, which through its own portal, allows employees to propose themselves for any vacancies arising in the Company.

With respect to this operation, the People Division of **Spain** during the year developed three important training projects for employees, which focus on customer service. As a result, in 2017 the *Commercial School* project was started for commercial advisors, sales outlet managers, own network operators, and own network coordinators and managers, reaching out to 266 people.

To this must be added the *Smile Codere* initiative, a training program aimed at Customer Service operators and focusing on personalized service. Along this line is the *Verbal Defense and Persuasion* workshop which, in collaboration with the Security Department, focuses on the development of communication skills, internal self-control and an emotive response to conflictive situations with customers.

With respect to matters of well-being, in 2017 the Company organized the *Mindfulness Business* program at its central headquarters in Madrid, and arranged for discounts to the Madrid Football Club summer camp for children of employees.

In Spain, the *Flexible Remuneration* program likewise remains active as part of the Codere commitment to optimizing remuneration, to which the *Suma+* program also contributes, developing an application in 2017 for employees to be able to manage tax benefits related to Personal Income Tax.

Italy has started initiatives to promote team work, co-worker relationships and training for excellence. Worthy of note is *Sinergia Vincente* (Winning Synergy), a program promoting a customer-oriented culture, which will make it possible to start two of the initiatives proposed in the course, related to the personnel areas of the head office and of the Gaming Halls.

Another noteworthy program is *We are Codere. Professionisti in gioco (We are Codere. Professionals at Play!)*, which aims to promote among employees a fuller awareness of the activities of the various businesses of Codere, proposing to them a day in which they can exchange jobs with their fellow workers in the Gaming Halls (Re and Cola di Rienzo) and in the head office.

The **15-year anniversary of Codere Italy** was celebrated by organizing a convention to promote Company challenges and organizational culture, in addition to various game activities with employees. Employee events for the Christmas holidays accentuated the positive environment of the organization.

Northern Cone America

Mexico has focused on training programs aimed at driving growth and professional development, preparing its employees to take on challenges, and to strengthen their integral development and managerial skills. The *Vive Codere* program, with the “Guide Your Team” and “You Decide” modules, provided for the on-premise training of over 60 people and the online training of 890 operations heads and managers in Panama, Colombia and Mexico.

The Company has also dedicated great effort in organizing *Operations Tours (Your Goal)* and conventions *(Balance, Bola 91, Constancia)*, which have allowed the various collaborators and managers who were called to attend to propose goals for the next year and to implement their skills and knowledge in the business.

Throughout the year, development initiatives which were already consolidated continued to be implemented, such as the *Managerial Skills Diploma* or the *Leaders in Development Program*, together with the Commercial Banking School (EBC) or the *Apply Yourself* program, which offers support to employees to finalize their middle and higher level studies (through the CENEVAL National Evaluation Center common examination).

Along this line, the Company -committed to the development of personnel of the Hipódromo de las Américas and Granja las Américas- established an agreement with the National Institute for Adult Education (INEA) to facilitate basic and middle-higher level training. These work centers have also promoted sessions for integration and start-of-season preparation specially focused on customer service.

Team work and encouragement of personal relationships also form part of the goals for the year, and are best reflected in sports competitions *(Codere Cup)*, the celebration of country special/traditional days or family days at the Granja de las Américas.

The **Colombia** business unit, in addition to specific training in matters related to the business and various operating skills, drives actions related to corporate processes and culture *(Well-being)*. Also of great importance throughout 2017 were the collaborative activities commemorating special days, sports activities which reinforce team work and help improve the work environment, such as the ping-pong tournament or the football championship.

Throughout 2017 Codere **Panama** focused on the development of the training activities of the *Academias*, or specific training such as *Training in Counterfeit Banknotes*.

In addition, under the slogan of "Working Together for Your Health", the Company has started several programs in the area of well-being and prevention, such as the *Preventive Healthcare Fair* (general medicine, ophthalmology, dentistry, etc.) and vaccination days for employees in the units of Panama and the Racetrack, in addition to *Drug-Free Youth* awareness-raising activities .

Southern Cone America

The business unit of **Argentina** focuses its attention on the start of training initiatives and social welfare benefits for its employees, especially through Continual Training Programs, such as courses on the *Prevention of Money Laundering and Terrorist Financing*, which aim to capacitate all personnel for compliance with the regulations in force, or the *Health and Safety Program*, which includes training in fire prevention, evacuation, first aid, occupational hazards (kitchens, maintenance, office, etc.) The Company also focuses on training in ISO Standards and the updating of certification of the prize payment and claim management process (ISO 9001:2008), as elements of hall transparency and Company quality.

In addition, Codere has started a series of programs to promote benefits for its employees, such as scholarships and school supplies for their children, and other family benefits (layette for newborns, marriage bonus, Christmas gift boxes, etc.) The Company also encourages co-worker relationships, especially when celebrating special days at the work centers.

Activity in the People area in **Uruguay** focuses on the encouragement of youth employment, and it works actively on professionalization and formalization in racing activity. For this reason, the work carried out in the *Jockey and Trainer School*, is vitally important, with this school now having its fourth generation of students, who study under an annual training plan which includes both theory and practice. The school also includes a boarding service (room and board) at the installations of the Hipódromo Las Piedras racetrack, at which 80 young people have already attended.

Moreover, the *Basic Professional Race Training Course* –which already operates at three levels equivalent to the Basic Cycle established by the UTU (Uruguay Labor University)- and for which the Company provides both infrastructure (classrooms and other HLP locations) as well the supplies required for said purpose. This area also includes the *Auxiliary Stable Groom Course*, which now has a new edition together with UTU, *Jóvenes en Red* (MTSS) and the Public Employment Center (MIDES). In addition, the Ramírez Grand Prix prepares and offers over 100 young people their first job experience in a number of customer attention service positions.

Furthermore, the activities carried out from Carrasco Nobile S.A. are focused on promoting Healthy and Responsible Gaming, with various programs and actions being started, which include player self-exclusion, the development and production of Responsible Gaming materials, and specific employee training in this area.

Lastly, the People Division, and above all the volunteer collaborators of the organization in the various countries, have given special dedication to the **solidarity initiatives** which are included in the action of the **Group Corporate Responsibility**.

The earthquakes which occurred **Mexico City** and **Italy** in 2017 highlighted the human capacity of the Codere team in the aid given to their communities.

In **Colombia**, the Company once again supported the United for Colombia Foundation (for the rehabilitation of victims of armed conflict) participating in the latest edition of the Bogota Half Marathon and supporting other organizations such as the Colombia Chiquita Foundation providing aid for underprivileged children.

On its part, Codere **Panama** also collaborates with numerous children's projects in matters of education and health, through its active volunteer program *Codere Gives You a Hand (Relay for Life, South Africa School, Give Smiles at Christmas or donations to Nutrehogar, etc.).*

The Codere **Uruguay** commitment to social action is closely related to the area of influence in which the Company is located (both the area of influence of the Hipódromo Nacional de Maroñas, as well as the area of the Carrasco), through specific social development programs for young people and children (in 2017 the Forges Foundation awarded Maroñas special recognition for its support of the access to quality jobs by underprivileged youth in Latin America). Also worthy of note is its collaboration with the Pérez Screemini Foundation, dedicated to the treatment and accompaniment of children with cancer, or its support of the activity of the country's various equine therapy centers, among other activities.

Auditor´s Report

Audit Report on Consolidated Financial Statements issued by an Independent Auditor

CODERE, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and Consolidated Management Report for the year ended December 31, 2017

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

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the Shareholders of Codere, S.A.:

Audit report on the consolidated financial statements

Opinion

We have audited consolidated financial statements of Codere, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2017 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

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 consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition and management of cash takings

Description

The Codere Group, as detailed in note 1 of the financial statements, generates its revenue from the operation of amusement and gaming machines, bookmakers, bingo halls, casinos and racetracks, collecting the related income principally in cash. Given the high volume of cash transactions and the risk of fraud intrinsic to the collection and management of the cash deriving from its takings and its correlation with the Group's revenue, we have considered this to be one of our key audit matters.

Our response

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

- Understanding the processes associated with the various sources of income as a function of the Group's different businesses. Analyzing the design and effectiveness of the relevant controls implemented by the Group in connection with the risk of misappropriation of cash.
- Analyzing substantive analytical procedures by means of correlations between sales revenue and cash accounts.
- Conducting analytical review procedures to assess whether the sales revenue recognized is in line with the levels estimated on the basis of our expectations.
- Conducting substantive procedures on the end-of-period cash count.
- Conducting substantive procedures on the end-of-period sales cutoff.
- Reviewing the consolidated financial statements disclosures.

Measurement of non-current assets (goodwill, other intangible assets, property, plant and equipment and deferred tax assets)

Description

Goodwill, other intangible assets and property, plant and equipment

As indicated in notes 10, 7 y 8 of the consolidated financial statements, the Group at December 31, 2017, recognized goodwill, other intangible assets and property, plant and equipment in the amounts of 185,270 thousand euros, 342,900 thousand euros and 338,879 thousand euros, respectively. At least once a year, the Group's Management analyzes the recoverable amounts of each significant cash-generating unit (CGU). The goal of this analysis is to determine whether it is necessary to recognize an impairment loss against the goodwill associated with these CGUs or against any other intangible asset or item of property, plant and equipment belonging to them. For impairment testing purposes, as indicated in note 4.a), the Group projects each unit's future cash flows using models that encompass the most pertinent business, financial and macroeconomic indicators.

We have considered this issue to be one of our key audit matters because the analysis performed by the Group's Management requires the use of complex estimates and judgments regarding the future earnings performances of the CGUs to which the above-listed assets belong. The description of the amounts, the reconciliation of the opening and closing balances and the analysis of the recoverable amounts of the CGUs to which the above-listed goodwill has been allocated are provided in notes 12 and 13 of the accompanying consolidated financial statements. Elsewhere, the corresponding disclosures for other intangible assets and property, plant and equipment are provided in notes 7 & 8 and 13, respectively, of the accompanying consolidated financial statements.

Deferred tax assets

At December 31, 2017, the Group recognized deferred tax assets in the amount of 48,695 thousand euros. The disclosures pertaining to these assets can be found in note 12 of the accompanying consolidated financial statements.

The assessment performed by the Group'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 Group's ability to recover its deferred tax assets to be a key audit matter.

Our response

In the context of our audit, for goodwill, other intangible assets and property, plant and equipment our work consisted primarily of:

- Understanding the process followed by the Group to determine the recoverable amounts of its non-current (non-financial) assets and the underlying projection process.
- 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 Group for the purpose of determining whether or not there were objective indications that its other intangible assets or property, plant and equipment were impaired.
- Reviewing of the consolidated financial statements disclosures.

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 Group 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 consolidated financial statements disclosures.

Provisions and contingent liabilities

Description

The Group is involved in several legal and tax cases, including regulatory and other governmental proceedings, and is also subject to inspections by certain tax and legal authorities. Refer to notes 2 b.19), 4 d) & e) and 22 of the consolidated financial statements for more details.

We consider this area to be a key audit matter due to the potential significance of these contingencies and the uncertainty intrinsic in the assessment of whether or not a liability should be recognized and whether or not the amounts can be reliably estimated, assessments which entail a certain amount of judgment on the part of Group Management.

Our response

In the context of our audit, our work consisted primarily of:

- Understanding the processes in place at the Group for assessing possible contingencies.
- Reviewing ongoing and potential lawsuits and contingencies, focusing on the estimates made by Management as to their probability of occurrence and the potential impact on the Group's consolidated financial statements.
- Receiving confirmation from in-house and external counsel regarding known and possibly-known lawsuits and claims, including an assessment of their likely outcome and financial statement impact to determine the reasonableness of Management's estimates.
- Involving our legal and tax experts to provide assistance during our audit in reviewing ongoing and potential lawsuits and contingencies.
- Reviewing of reasonability of the information disclosure by the Group in the notes of the consolidated financial statements.

Other information: consolidated management report

Other information refers exclusively to the 2017 consolidated 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 consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated 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 consolidated management report or where applicable, that the consolidated 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 consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Group 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 consolidated 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 consolidated management report, and that the remaining the information contained therein is consistent with that provided in the 2017 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the parent company´s directors and the audit committee for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the parent company are responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 directors' 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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the parent 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 parent 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, we determine those matters that were of most significance in the audit of the consolidated 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 27, 2018.

Term of engagement

The annual general shareholders' meeting held on June 30, 2016 appointed us as auditors for three years, commencing on December 31, 2016.

ERNST & YOUNG, S.L.

Rafael Páez Martínez

February 27, 2018

CODERE, S.A. AND SUBSIDIARIES
Consolidated statement of financial position at December 31, 2017 (Thousands of euros)

ASSETS	At December 31 2017	2016
Non-current assets	**988,760**	**1,051,309**
Intangible assets	342,900	376,136
Property, plant and equipment	338,879	358,258
Investment properties	49,959	56,102
Goodwill	185,270	190,672
Investments in equity-accounted investees	741	585
Non-current financial assets	22,316	21,474
• Non-current loans	18,358	17,020
• Held to maturity investments	3,958	4,454
Deferred tax assets	48,695	48,082
Current assets	**346,920**	**428,141**
Inventories	10,002	11,356
Accounts receivable	165,687	192,489
• Trade receivable	42,329	41,135
• Current tax assets	35,988	2,115
• Sundry receivables	48,472	40,469
• Accrued tax receivable	38,898	108,770
Financial Assets	51,567	63,253
• Other loans and investments	51,567	63,253
Adjustments for accruals	15,126	18,986
Cash and cash equivalents	104,538	142,057
TOTAL ASSETS	**1,335,680**	**1,479,450**

The accompanying financial statement notes are an integral part of these consolidated financial statements

EQUITY AND LIABILITIES	At December 31 2017	2016
Equity attributable to equity holders of the parent	(78,793)	98,503
Issued capital	509,715	505,943
Share Premium	563,178	561,950
Legal reserve and retained earnings	(853,572)	419,066
Revaluation reserves	3,573	3,727
Translation differences	(304,423)	(266,297)
Profit/(Loss) for the year attributable to equity holders of the parent	**2,736**	**(1,125,886)**
Non- controlling interest	**83,824**	**(24,822)**
Total equity	**5,031**	**73,681**
Non-current liabilities	**946,493**	**997,084**
Deferred revenue	55	14
Non-current provisions	31,057	30,932
Non-current financial liabilites	832,003	870,810
• Bank borrowings	40,775	49,619
• Issues notes	752,896	788,335
• Other borrowings	38,332	32,856
Deferred tax liabilities	83,378	95,328
Current liabilities	**384,156**	**408,685**
Provisions and other	8,596	9,252
Bank borrowings	39,058	23,313
Notes and other marketable securities	13,028	12,223
Other non-trade payables	178,124	213,024
Trade payables	95,501	99,229
Current tax liabilities	49,849	51,644
TOTAL EQUITY AND LIABILITIES	**1,335,680**	**1,479,450**

Consolidated statement of profit or loss for the year ended December 31, 2017 (Thousands of euros)

	At December 31	
	2017	2016
Operating income	1,637,904	1,497,420
• Revenue	1,628,115	1,486,287
• Other income	9,789	11,133
Operating expenses	(1,506,281)	(1,411,782)
• Raw materials and consumables used and other external expenses	(54,851)	(47,541)
• Empoloyee benefit expense	(259,959)	(245,506)
• Depreciation and amortization	(112,988)	(102,364)
• Change in provisions for bad debt	(2,197)	(5,808)
• Other operating expenses	(1,076,286)	(1,024,045)
• Asset impairment	0	13,482
Gains/(loss) on derecognition/disposal of assets	(487)	12,583
OPERATING PROFIT	**131,136**	**98,221**
Finance income	9,978	5,023
Finance costs	(79,779)	(1,190,458)
Net exchange losses	22,641	(37,076)
NET FINANCE COST	**(47,160)**	**(1,222,511)**
CONSOLIDATED PROFIT/(LOSS) BEFORE TAXES	**83,976**	**(1,124,290)**
Income tax	(64,177)	(36,738)
Share of profits of equity-accounted investees	**(59)**	**3,953**
PROFIT/(LOSS) FOR THE PERIOD	**19,740**	**(1,157,075)**
Attributable to:		
Non controlling interests	17,004	(31,189)
Equity holders of the parent	2,736	(1,125,886)
Basic and diluted earnings per share (euros)	**0.01**	**(0.62)**
Basic and diluted earnings per share from continuing operations attributable to equity holders of the parent (euros)	0.01	(0.59)

Consolidated statement of other comprehensive income for the year ended December 31, 2017 (Thousands of euros)

	At December 31	
	2017	2016
Profit/(loss) for the year	19,740	(1,157,075)
Actuarial gains or losses	173	
Cash Flow hedge	32	
Foreign currency translation differences	(65,801)	(40,004)
Other comprehensive income	(65,596)	(40,004)
Total comprehensive income for the year	**(45,856)**	**(1,197,079)**
Attributable to non-controlling interests	12,354	(25,084)
Attributable to equity holders of the parent	(58,210)	(1,171,995)

Consolidated statement of changes in equity for the year ended December 31, 2017 (Thousands of euros)

	Issued capital	Share premium	Retained earnings	Reserves of equity accounted investees	Revaluation Reserves	Translation Differences	Profit (loss) attributable to equity holders of the parent	Equity attributable to equity holders of the parent	Equity attributable to non-controlling interests	Total equity
Balance at December 31, 2016	505,943	561,950	412,349	6,717	3,727	(266,297)	(1,125,886)	98,503	(24,822)	73,681
Profit/(loss) for the period	-	-	-	-	-	-	2,736	2,736	17,004	19,740
Other comprehensive income for the period	-	-	205	-	-	(61,151)	-	(60,946)	(4,650)	(65,596)
Total comprehensive income	-	-	205	-	-	(61,151)	2,736	(58,210)	12,354	(45,856)
Reversal of revaluation reserves	-	-	154	-	(154)	-	-	-	-	-
Issuance of shares	3,772	1,228	(948)	-	-	-	-	4,052	-	4,052
Changes in ownership interests	-	-	-	-	-	-	-	-	-	-
Business Combination	-	-	-	-	-	-	-	-	1,657	1,657
Reserve for own shares		-	24	-	-	-	-	24	-	24
Acquisition of non-controlling interests	-	-	(148,166)	-	-	23,025	-	(125,141)	101,047	(24,094)
Share-based payments	-	-	1,979	-	-	-	-	1,979	-	1,979
Gain/ (loss) on trading in own shares	-	-	-	-	-	-	-	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-
Dividends paid(*)	-	-	-	-	-	-	-	-	(6,412)	(6,412)
Amounts transferred to retained earnings	-	-	(1,129,839)	3,953	-	-	1,125,886	-	-	-
Total changes in equity	3,772	1,228	(1,276,796)	3,953	(154)	23,025	1,125,886	(119,086)	96,292	(22,794)
Balance at December 31, 2017	**509,715**	**563,178**	**(864,242)**	**10,670**	**3,573**	**(304,423)**	**2,736**	**(78,793)**	**83,824**	**5,031**

(*) Corresponds to the distribution of dividends to non-controlling interests in Group subsidiaries. The accompanying financial statement notes are an integral part of these consolidated financial statements

Consolidated statement of cash flows for the year ended December 31, 2017 (Thousands of euros)

	At December 31	
	2017	2016
Profit/ (loss) before tax	83,976	(1,124,290)
Net finance (income)/cost	47,160	1,222,511
Operating profit/ (loss)	131,136	98,221
Non-cash expenses	124,989	106,137
• Depreciation and amortization	112,988	102,364
• Asset impairment	-	(13,482)
• Other operating expenses	12,001	17,255
Non-cash income	(3,871)	(15,896)
Changes in working capital	**(13,762)**	**12,278**
• Inventories	1,355	708
• Accounts receivable	(16,331)	6,730
• Accounts payable	2,131	(2,394)
• Other	(917)	7,234
Income tax paid	**(70,856)**	**(48,765)**
CASH FLOWS USED IN OPERATING ACTIVITIES	**167,636**	**151,975**

	At December 31	
	2017	2016
Purchase of property, plant and equipment	(106,734)	(75,570)
Proceeds from the sales of property, plant and equipment	-	-
Loans to establishment owners: cash outflows	(19,453)	(22,545)
Loans to establishment owners: cash inflows	18,834	21,943
Payments for investments	(33,152)	(25,792)
Proceeds fromdisposals	1,486	930
Payments for other financial assets	-	(15,951)
Proceeds from other financial assets	4,684	-
Interest received	4,346	2,646
CASH FLOWS USED IN INVESTING ACTIVITIES	**(129,989)**	**(114,339)**
Notes issue	**-**	**1,164,153**
Redemption of notes	-	(889,298)
• Drawdon of Codere's senior debt	10,000	-
• Repayment of Codere's senior debt		(130,000)
• Repaymentof other borrowings	(4,098)	(356)
Change in borrowings	**5,902**	**(130,356)**
• Proceeds from bank loans	27,997	1,138
• Repayment of bank loans	(23,388)	(19,742)
Changein other bank loans	**4,609**	**(18,604)**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31,2017 (THOUSANDS OF EUROS)

	2017	2016
Dividends payments	**(5,823)**	**(4,619)**
• Payments in respect of other financial borrowings	6,330	(12,500)
• Repayment of other financialborrowings	(907)	(30,293)
Changes in other financial borrowings	**5,423**	**(42,793)**
Other cash flow due to impact of exchange rates on collections and payments	**(4,942)**	**443**
• Buyback of own equity instruments	(41)	-
• Disposal of own equity instruments	2,111	-
Net investment in own shares	**2,070**	**-**
Interest paid	**(72,151)**	**(79,616)**
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(64,912)**	**(690)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(27,265)**	**36,946**
Reconciliation		
Cash and cash equivalents,opening balance	142,057	110,326
Net foreing exchange difference	(10,254)	(5,215)
Cash and cash equivalents,closing balance	104,538	142,057
Net (decrease)/increase in cash and cash equivalents	**(27,265)**	**36,946**

The accompanying financial statement notes are an integral part of these consolidated financial statements