

Director's Report



## 1) Summary of 2005

Results for 2005 are very positive, outperforming, in revenue growth, the market and the main companies in the sector, improving on high levels of profitability, and very satisfactorily fulfilling the demanding objectives set for 2005 as a whole in a general economic and sector environment which continues to be subject to fierce competitive pressure.

	Objectives	Close
Growth in sales	11%	11.4%
Total Order Intake	> than 2004	Δ 16%
	> than sales	Δ 18%
EBIT margin	≥ 11,5%	11.8%

The good performance of commercial activity (order intake and sales) in Indra's global figures has resulted from favourable development in each of the main business segments and areas of activity:

- Order intake, which has amounted to 1,417 €M, having grown by 16%, has reached significant rates of growth both in the Solutions segment (14%) and in the Services segment (22%); and, by business areas, 13% in IT and 24% in SIM&ATS plus DEE.
- The 11.4% growth in total revenues has been generated by:
  - growing with double digit rates in the two main segments (11% in Solutions and 13% in Services);
  - by also growing with double digit rates both in the institutional demand markets as a whole (10%) and in the other markets (Telecom & Utilities, Financial & Insurance and Industry & Commerce), in which total growth of 17% has reached organic growth of 10%, a rate appreciably higher than what was recorded in the three previous financial years;
  - and by likewise growing at double digit rates, both in the domestic market (10%) and in the international market (14%), in which the growth recorded in USA (20%) and Latin America (21%) may be highlighted.

This dynamism in commercial activities has, one more year, allowed the order backlog to continue increasing, and it has increased by 19% to reach 1,623 €M, which is equivalent to 1.35 times revenues for the year 2005. Its high growth can be broken down into rates that are also very relevant for the different business segments and areas of activity: 16% in Solutions and 37% in Services; 15% in IT and 27% in SIM&ATS plus DEE.

Despite the intense commercial initiatives, operating profitability has continued to improve in 2005. EBIT has risen by 24% to Euros 142 million, which has generated an EBIT margin of 11.8%, up 1.2 percentage points on the prior year. These increases are affected by the application in 2004 of the new IFRS accounting criteria; eliminating the main effect of these, operating profit (EBIT) would have risen by 16% and the EBIT margin would be up by 0.5 percentage points.

Attributable Profit was Euros 104 million, 30% higher than the preceding year and representing 8.7% of sales.

The growth in Earnings per Share (EPS) has been greater than that for the results of the financial year, reaching 36%, mainly due to the positive effect of the share buy-back programme for 5% of the capital and its subsequent amortization in the month of July, as part of the application in favour of our shareholders of the extraordinary liquidity held by the company.

The said programme, plus the direct remuneration by way of dividends, both ordinary and extraordinary, meant using 181 €M in favour of the shareholders. On the other hand, the company applied 70 €M in acquisitions (mainly for the transactions relating to Indra ATM and BMB), and 74 €M for working capital requirements, which has increased, in line with what we had anticipated so as to represent 38 days of sales.

The Operating Cash-Flow has had a positive evolution during the financial year, by growing 24% to reach 166 €M.

The indicated sources and applications of funds have led to a substantial reduction in the net cash position, reaching Euros 54 million at year end, compared to Euros 205 million last year.

## 2) Potential growth and medium term profitability

In the medium term Indra retains a high potential to continue to grow by relevant rates that will be higher than market rates, and also to reach superior profitability levels. The main factors underlying Indra's future are:

- In recent years the company has reinforced and extended its offer capability by penetrating new demand segments, and by winning new customers. The impact of this wider and better offer addressed to a larger customer base is progressive and is growing.
- The situation of the Spanish economy makes it possible to project a generally positive and more favourable framework for the growth of demand; mainly in the most relevant IT segments.
- A large number of its main customers are subject to growing competitive pressure and to more intense internationalisation processes, which favours the growth of their demand for services and solutions.
- A more intensive use by big customers of solutions and services from third parties progressively generates a more favourable demand for suppliers with a greater functional knowledge that are capable of presenting a value proposal, and that possess the necessary size and reliability to take on long term commitments.
- Indra occupies a market position of significant strength in the demand segments with a greater growth potential, such as Security, Health, Legal or Electronic Public Administration.
- The development in the international markets has highlighted the competitiveness of its offer, allowing the company to consolidate the management and execution capabilities that are required in these environments. The potential market in this scenario is very superior to what it has been winning in the past; and, although sometimes the maturity periods are somewhat extended, we are fully confident about our continuing to be successful in the future, and to even obtain more relevant achievements than those seen in the past.

Although a gradual general improvement in demand is foreseen, Indra considers that this will occur slowly and that price levels will not improve appreciably. Nonetheless, levels of operating profitability can be improved:

- due to the positive effect which the factors indicated in the preceding points should have on a greater differentiation of Indra's offer
- due to improvements which can continue to be introduced in the management of costs, mainly through optimisation of processes, reassignment of resources and new tools and methods of project management.

As in recent years, the materialisation of these opportunities and potential is approached with the aim of maximising these in the shortest time possible, but prioritising so that the best achievements can be maintained in the medium and long term, which is the best way of generating rising and sustainable value.

Upon the 2005 close, Indra has ratified the growth and profitability targets for 2006:

- Growth in sales of between 9% and 10%.
- Order intake exceeding sales for the year, thereby increasing the year-end order book.
- Increase in operating profitability, raising the EBIT margin to 12%.

In regard to the different markets and businesses, the growth prospects are more favourable in the private demand markets (Telecommunications & Utilities, Financial & Insurance and Industry & Commerce), while the institutional demand markets (Defence & Security, Transport & Traffic and Public Administration & Health) retain a good general condition.

Finally, Indra's Board of Directors has and continues to permanently consider the company's balance sheet structure, in search of a reasonable balance among the following factors:

- maintain financial solidity in accordance with the nature of our business;
- to take advantage of acquisition opportunities that may reasonably come forward within a time frame of one to two years; and
- avoid an excess of equity, considering the previous circumstances.

This balanced position is periodically revised by the Board in its best judgment depending on the available information available at the time.

### 3) Main figures 2005

The main year-end figures are shown in the following table:

INDRA	2005 (€M)	2004 (€M)	Variation (%)
Order Intake	1,416.5	1,224.8	18
Ordinary Income (Sales)	1,202.2	1,079.2	10
Order Book	1,623.1	1,363.7	12
Operating Profit (EBIT)	142.3	114.8	24
EBIT Margin on sales	11.8	10.6 (1)	1.2 p.p

INDRA	2005 (€M)	2004 (€M)	Variation (%)
Profit for the year	107.4	84.6	27
Attributable Profit	104.1	80.0	30
Net Cash Position	54.1	205.2	(74)

Earnings per share (under IFRS)	€	€	Increase (%)
Basic EPS	0.7068	0.5188	36
Diluted EPS	0.7068	0.5188	36

(1) 11.3% excluding the non-recurring effect of application of IFRS

- The basic EPS is calculated on the basis of the Net Attributable Profit, taking into account a number of shares equal to the total number of shares in the company, less the weighted treasury stock of the financial year. This treasury stock is weighted in accordance with the number of days that the shares have been on the company's balance sheet during the whole year.

	2005	2004
Total no. of shares	150,393,135	154,395,954
Weighted own shares	3,151,197	107,015
<b>Total shares considered</b>	<b>147,241,938</b>	<b>154,288,939</b>

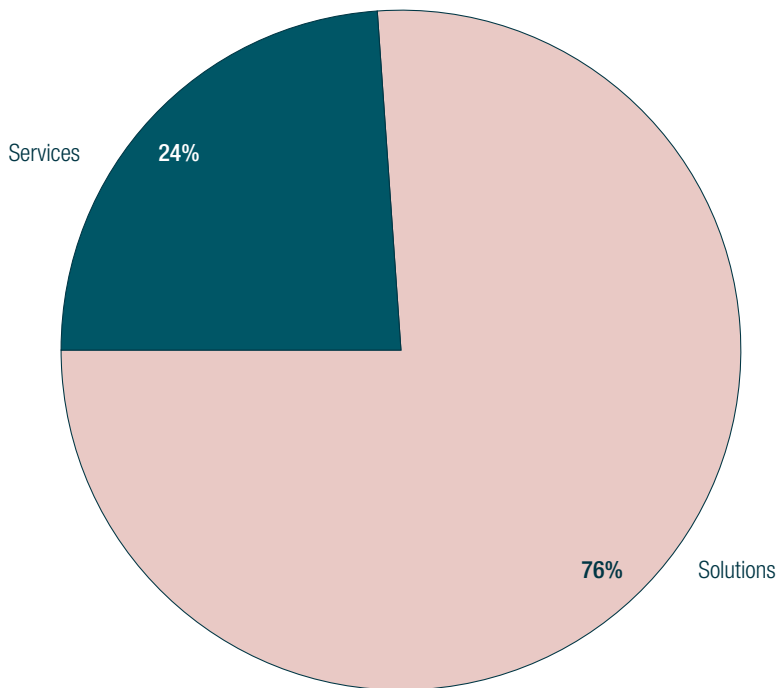
The reduction in the total number of shares during 2005 is due to the weighted effect for the amortization period, which has elapsed during July, of 5.33% of the company's capital (5% within the share re-purchase programme and 0.33% from the amortization of redeemable shares). At the close of 2005, the total number of shares in the company amounts to 146,187,926 shares (which figure is the same as the current figure), holding 2,313,948 shares as treasury stock, of which 32,948 shares were own treasury stock and the rest (2,281,000) corresponded to shares which serve as coverage for the Stock Options Plan 2005, for which plan coverage has been provided through an Equity-Swap with a financial institution.

- The diluted EPS is calculated in the same way, but taking into account the potential dilution generated by the instruments convertible into shares or with a capital element. In the case of Indra, as no convertible or other instruments of this sort have been issued, this dilution does not exist, and so the diluted EPS is the same as the basic EPS.
- Variations in the perimeter of consolidation have given rise to additional revenues of €15.9m in comparison to the same period last year.

#### 4) Commercial activity and sales by segments

Indra's offer is structured into two main segments: Solutions and Services.

##### Total sales breakdown



##### a) Solutions

In the solutions segment, the company has closed the year maintaining the positive tone of previous quarters, both in order intake and in revenues. The main figures for 2005, and its comparison with the preceding year, are as follows:

	2005 (€M)	2004 (€M)	Variation	
			€M	%
Order intake	1,106.9	970.3	136.6	14
Sales	916.1	826.1	90.0	11
Order book	1,324.1	1,146.2	177.9	16

During 2005, the main growth areas within the solutions segment have been:

- Various solutions linked to Defence activities. From these, highlight three important milestones during 2005:
  - The beginning of order intake for the second tranche of the EFA which has amounted to some €200m of order intake over the year.
  - The placement of the order for the first simulation project within the US Navy's Training Systems Contract II (TSC II) framework programme.
  - The start-up of the European A400M military transport aircraft project, for which Indra has been chosen to develop the identification and electronic defence systems.
- Solutions linked to identification systems, in particular the projects for the new Spanish Electronic National Identity Card, the information systems for the Portuguese Aliens & Frontiers Service (SEF), or the passport and visas issuing system for the Republic of Angola.
- Solutions in the field of health management, with important projects such as the system for storing and sharing medical images, electronic prescriptions for various Autonomous Regions in Spain, or the public health management model for Tunisia.

- Solutions for ground-traffic control and management, with projects such as the ticketing systems with the contact-less system for the Madrid and Santiago de Chile Metro systems, or the project for the renewal of the ticketing systems for the Saint Louis (U.S.A.) light rail network. Likewise, within the traffic-management systems, we may highlight projects both in the domestic market (Madrid-Toledo Motorway) and in the international market (Socina Tunnels)

Lastly, the following should also be highlighted:

- the favourable evolution of the various turnkey systems in the telecommunications activity, mainly in Latin America, and
- the development of new air traffic control systems in the international market, in particular, for example, the signing in the fourth quarter of a contract with the DFS (the German air traffic control Agency) for the development of the next generation of the ATM system known as P1/ITEC. This contract positions Indra as an undisputed reference point in the European market.

## b) Services

With regard to the Services offer, commercial activity in the fourth quarter has allowed the levels attained in previous quarters to be consolidated:

	2005 (€M)	2004 (€M)	Variation	
			€M	%
Order intake	309.6	254.5	55.1	22
Sales	286.2	253.1	33.0	13
Order book	298.9	217.5	81.4	37

Within this segment, 2005 has been an important year for Indra on account of the attainment of a number of important multi-annual projects in various activity sectors. At the same time, as has been commented in previous reports, the company has strengthened its BPO offer with the increase last April of its stake in BMB (up to 50%), company specialized in this type of services for the financial sector, and which has allowed the company to improve its position in this sector.

The main projects contracted during the year have been: the maintenance of various air force systems for the Spanish Ministry of Defence; the BPO of the e-learning platform for Repsol; the project for the management of the lotteries and betting systems controlled by the Regional Government of Catalonia, over the next eight years; the technological Outsourcing project for Caixa General de Depósitos in the Portuguese market; the outsourcing of services for management of the Catalanian government's technological infrastructures, software, communications and user service for four years, renewable for a further two years, this project constituting a reference point given its complexity and scope; or the outsourcing project for the Customer Care Centre (CAU) and micro-informatics support for Grupo Leche Pascual.

## 5) Sales by geographical areas (secondary segments)

The breakdown of sales by geographical markets in 2005 is as follows:

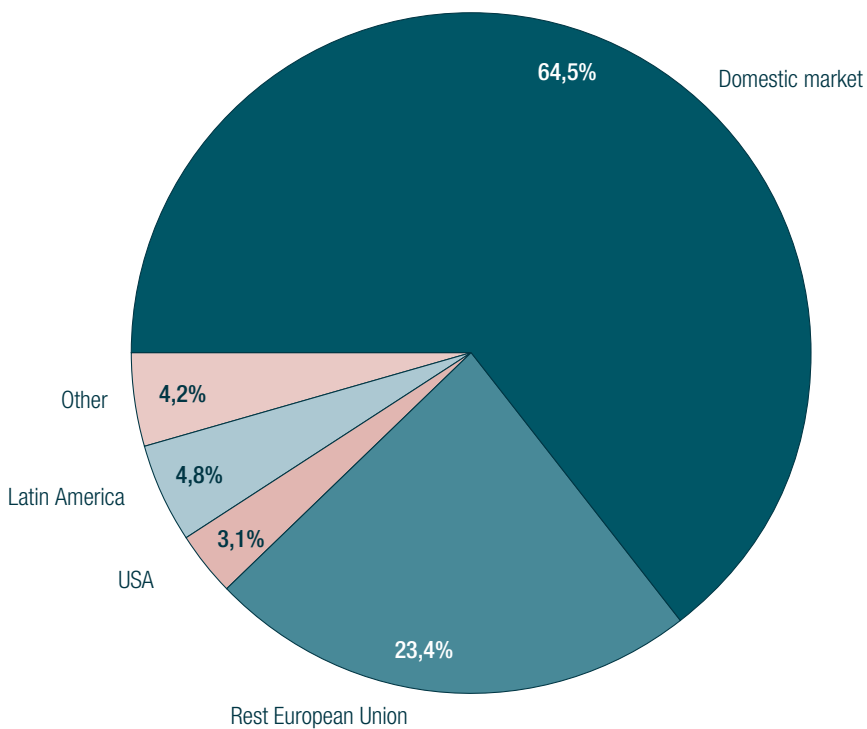
SALES	2005		2004		Variation	
	€M	%	€M	%	€M	%
<b>Total sales</b>	<b>1,202.2</b>	<b>100</b>	<b>1,079.3</b>	<b>100</b>	<b>122.9</b>	<b>11</b>
Spain	775.6	65	704.4	65	71.2	10
International	426.7	35	374.9	35	51.8	14
European Union	281.6	23	261.9	24	19.7	8
USA & Canada	37.0	3	30.8	3	6.2	20
Latin America	57.7	5	47.8	4	9.9	21
Others	50.3	4	34.5	3	15.8	46

At the end of 2005, the Spanish market accounted for 65% of the Company's sales and, in line with the trend of the last two years, it has been the international market which has seen the highest growth rate.

This higher level of growth in the international market has been concentrated in:

- USA and Canadá, where the growth rate that has been attained is explained by the execution of various contracts signed over the last year in the SIM/ATS activity. In addition, the contract for the first project within the multi-year simulation programme for the US Navy (TSCII), for which Indra is the main contractor, as well as new opportunities foreseen, provide grounds for optimism regarding the growth of this market in 2006.
- Latin-America, where activity continues to be maintained, for another quarter, by the positive evolution of the Telecommunications activity, and by the improved economic situation in general. During this year, Indra has continued to develop a significant local presence, with its own workforce which exceeded 600 employees at the close of the year.
- Other countries, largely due to diverse Transport and Traffic projects in Serbia-Montenegro (traffic and toll systems) and Macedonia (air traffic system).

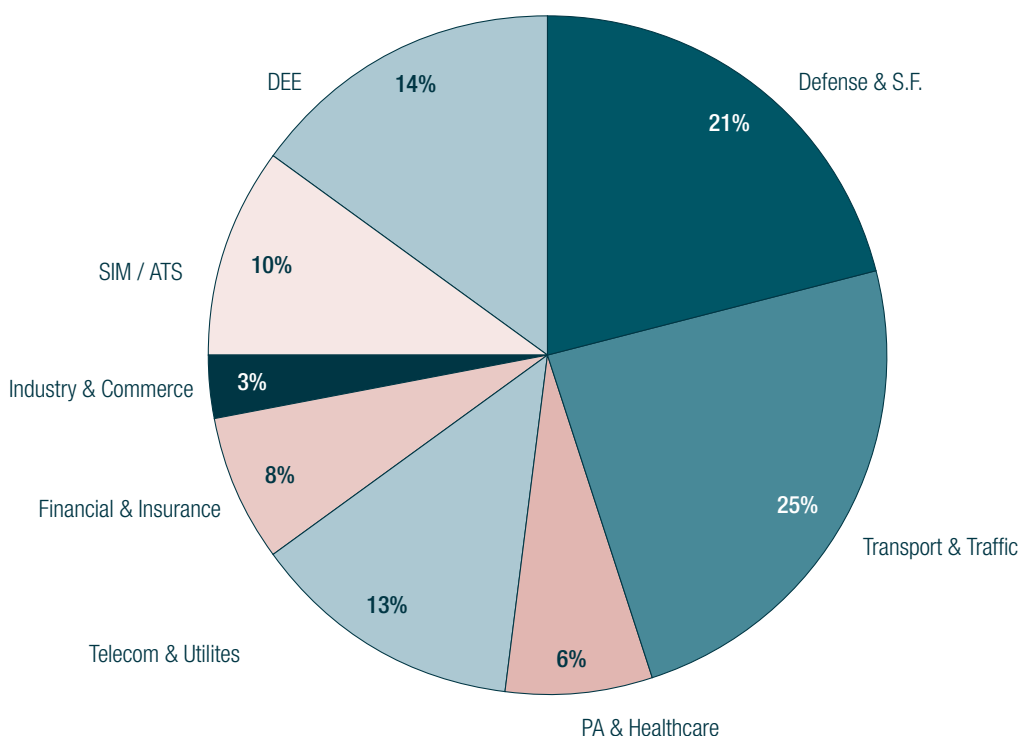
### Sales by geographical area



## 6) Commercial activity and sales by sectors

The breakdown of total revenues at the close of 2005 is as follows:

### Revenues breakdown



### a) Information Technologies (IT)

#### IT order intake

	2005 (€M)	2004 (€M)	Variation	
			€M	%
Order intake	1,016.3	903.1	113.2	13

In 2005, the order intake for the IT activity, which has exceeded Euros 1,000 million for the first time, has risen by 13%. All of the Group's markets have performed well, especially Public Administration and Healthcare, Financial and Insurance and Industry and Commerce.

In the market of Public Administration and Healthcare, the following projects are notable; the digital National Identity Card contract; the electronic prescription system for the Community of Madrid; the design of the Tunisia healthcare management system; the outsourcing of services for management of the Catalonian government's technological infrastructures, software, communications and user services; Angola's system for issuing passports and visas; and the replacement of Portugal's Aliens and Border Service systems.

With regard to balloting projects, order intake over the year has totalled €16.5m (shared virtually 50% each between the domestic and the international market), compared to Euros 21.5 million in the prior year.

In the Financial and Insurance market, growth in order intake in the Portuguese market has been significant over the year, as has growth in the insurance activity in the domestic market, with clients such as Aviva or MAPFRE.

Finally, in the Industry and Commerce market, it is worth highlighting some important projects such as the outsourcing of the Customer Care Centre (CAU) and micro-informatics support for Grupo Leche Pascual, which was referred to above.

## IT Sales

Total revenues in the IT area during 2005 grew by 12% with respect to 2004, with all markets experiencing organic growth of around 10%. Their breakdown by markets is as follows:

SALES	2005 (€M)	2004 (€M)	Variation	
			€M	%
Transport and Traffic	294.6	264.0	30.6	12
Defence and Security	253.9	230.4	23.5	10
Telecommunications & Utilities	151.4	138.3	13.1	9 (*)
Public Administration and Healthcare	88.3	80.7	7.6	9 (**)
Financial and Insurance	94.4	71.0	23.4	33
Industry and Commerce	34.5	31.1	3.4	11
<b>Total</b>	<b>917.0</b>	<b>815.6</b>	<b>101.4</b>	<b>12</b>

(\*) Public administration and healthcare, excluding balloting projects, rise by 21%

(\*\*) Financial and Insurance, excluding the acquisition of BMB, rise by 11%

The Transport and Traffic market has attained a growth rate of 12%, in line with forecasts, and in particular it is worth highlighting the growth obtained in the ground traffic area (Ticketing Systems, and Traffic and Tolls).

The Defence and Security market has steadily increased its growth rate, as the level of activity in the domestic market has improved.

The Telecommunications and Utilities market has evolved more favourably than was initially expected, with growth rates improving as the year progressed. The reason for this is to be found in the positive evolution of the Telecommunications sector, both in Latin America, especially in Chile and Brazil, led by our main client, and in the Spanish market with other operators.

The Public Administration and Healthcare market has grown at a rate of 21% excluding balloting projects, due for the most part to the execution of a number of contracts for various local and regional administrations, as well as in the Healthcare area, and for the activity relating to the development of Identification systems. With regard to balloting projects, the revenues figure has amounted to €16.5m during this year, as against €21.5m in 2004.

The Financial and Insurance market has maintained the favourable tone of previous years, with organic growth of 11%, particularly buoyed by the insurance activity, and by the domestic financial market. Including the take-over of 50% of BMB as from last April, which has contributed €15.9m of revenues since then, growth in this market has reached 33%, representing now 8% of the company's total revenues.

Lastly, in the Industry and Commerce market, Indra's strategy based on developing a selective offer, has allowed consolidation of the tendency towards recovery, which has been evident in this market since the end of the previous year.

As regards the breakdown by geographical markets, the domestic market has once again this year been the main market in IT activity with 73% of revenues. In the international market, the European Union continues to be the main market, representing 16% of the total IT market, followed by Latin America (6.3% of IT activity).

## IT Orders

The fact that during 2005 order intake in the IT activity has been 11% higher than the revenues figure, has allowed the order backlog in this business area to increase by 15%:

	2005 (€M)	2004 (€M)	Variation	
			€M	%
Order book	1,014.0	885.5	128.5	15

This order backlog is equivalent to 1.11 times revenues for IT for financial year 2005, as against the 1.09 times coverage that existed at the end of the last financial year 2004. With this, the visibility of this business area continues to increase as from the minimum of 0.97 times reached at the close of financial year 2002.

## b) SIM/ATS and DEE

### SIM/ATS and DEE order intake

Financial year 2005 has been a good year for joint order intake in the SIM/ATS and DEE markets, with growth of 24%, following a year –that of 2004– in which order intake had grown by 114%.

In the DEE activity, the Second Tranche of the Eurofighter (EFA) has constituted, without doubt, the main source of growth in order intake during 2005.

With regard to SIM/ATS activity, the lower order intake compared to 2004 is explained by the international market where, in the previous financial year 2004, a high volume of projects related to the EFA Automatic Testing Systems was ordered. In this financial year 2005, and despite the fact that order intake in the said market has been lower than in the year before, it is possible to highlight a number of keynote contracts such as the development of an EFA simulator for the Austrian market; or the project for the modernization of the MH53 helicopter simulator for the US Navy.

For its part, the domestic market has performed very positively in 2005, with some significant projects, including the Automatic Testing Systems for the Leopard or the Tigre Simulators. Additionally, some business opportunities have arisen in the civil area, such as for example the development of simulators for buses.

ORDER INTAKE	2005 (€M)	2004 (€M)	Variation	
			€M	%
Simulation and Automatic Test Systems	117.3	120.4	(3.1)	(3)
Defence Electronic Equipment	282.9	201.3	81.6	41
<b>Total</b>	<b>400.2</b>	<b>321.7</b>	<b>78.5</b>	<b>24</b>

### SIM/ATS and DEE sales

SALES	2005 (€M)	2004 (€M)	Variation	
			€M	%
SIM / ATS	115.3	106.3	9.0	8
DEE	169.9	157.4	12.5	8
<b>Total</b>	<b>285.2</b>	<b>263.7</b>	<b>21.5</b>	<b>8</b>

These two business areas have grown by 8%, including notable growth in Automatic Test Systems activity in the Spanish and international market as well as the development in DEE of different systems for the Meteor missile programme and Pizarro and Leopard vehicles.

By geographical areas, Europe continues to be Indra's main market, accounting for 48% of the total sales from SIM/ATS and DEE, followed by the Spanish market with 37%, and the American one with 12%.

### SIM/ATS and DEE order book

The fact that the order intake for both areas has exceeded sales in 2005 (by 40%, taken jointly) has allowed the order book to be increased to Euros 609 million, up 27% from the 2004 close.

ORDER BOOK	2005 (€M)	2004 (€M)	Variation	
			€M	%
SIM / ATS	189.5	186.2	3.3	2
DEE	419.6	292.1	127.5	44
<b>Total</b>	<b>609.1</b>	<b>478.2</b>	<b>130.9</b>	<b>27</b>

This order book is equivalent to 2.14 times the sales from the last 12 months, compared to 1.81 at the end of 2004.

## 7) Analysis of the consolidated financial statements

The following points should be noted regarding comparison of the 2005 profit and loss account with the preceding year:

- Net Operating Profit (EBIT) has totalled €142m, which represents an increase of 24%. As has occurred throughout the whole of this year, part of this growth has been due to the fact that the results for 2004, as a consequence of the application of the IFRS criteria, include a cost of a non-recurring nature in the amount of €7.5m. The IFRS require that this cost, for which funds were originally allocated in 2003 in accordance with the accounting standards in force at the time and applying criteria of maximum prudence (as was reported in the last quarter of the said year) should be attributed to financial year 2004. Excluding this effect, the increase in Net Operating Profit would have been 16%.

This Net Operating Profit implies an operating margin (EBIT Margin) of 11.8%, as against 11.3% for 2004 (excluding the item referred to in the previous paragraph). This evolution of the operating margin allows 2005 to close within the high range of the forecast for the close of the year made last November (11.7%-11.8%), thereby clearly exceeding the target for the year of reaching, at least, 11.5%.

- The heading for Investments Portfolio Profits improves as a result of the evolution of the results of the companies in which Indra holds a stake, from which we may highlight Inversis which, in the previous financial year 2004, gave rise to a loss under this heading of €4m.
- The Profits for the year totalled €107.4m, which amounts to an increase of 27%. For its part, the growth in the basic Earnings per Share (EPS) has exceeded this level, yielding an increase of 36% due to the effect of the share buy-back programme for 5% of the share capital established at the beginning of the year, and for which effective amortization was carried out last July.
- Finally, Attributable Profit, which totals Euros 104.1 million, has risen by 30%, three percentage points above the Profit for the Year, as minority interests have been reduced by 26% essentially due to the acquisition of 35% of Indra EMAC, as stated in the 2004 report.

As regards the balance sheet:

- Goodwill has increased following the acquisitions in the year, the most important of which are those relating to BMB (which has generated goodwill of Euros 14 million) and the minority shareholding (49%) in Indra ATM, acquired at the end of last December and which has generated goodwill of Euros 29 million.
- The heading "Investments in associated companies and non-current financial assets", as has been explained in previous quarters, has been reduced mainly as a result of the reduction of the deposits associated with the redeemable shares that served as financial coverage for the company's options plans, as these options have been executed (2000 Stock Options Plan and 2002 Stock Options Plan).
- Treasury Stock has increased in comparison with the previous financial year as a result of the financial coverage for the new stock options plan set up this year, in accordance as approved by the Shareholders General Meeting held on 27 June 2005. This coverage has been provided by way of an Equity-Swap with a financial institution.

Given its purpose, and in accordance with the IFRS, this Equity-Swap should be shown in the accounts as lower Net Assets (Treasury Stock, as if it were own shares), and its counterpart would be Other financial losses..

With regard to the Cash Flow, the Cash Flow from operations has totalled €165.6m, with growth of 24% with regard to the same period last year. The main spending items for company cash flow during the year have been:

- Working Capital

The net working capital position has increased during this year, and at the close of the year it had reached a position equivalent to 38 days' revenues, as against 18 days at the close of 2004. This has resulted in an investment of €74m in working capital during 2005.

- Shareholder remuneration

During 2005 Indra has set aside a total of €181m for shareholder remuneration:

– €78m by way of dividends (€49m of an extraordinary nature, and €28m ordinary);

– and €103m by way of the acquisition of 5% of the share capital, within the share buy-back programme announced by the company in January 2005.

- Financial investments

In 2005 the company has set aside a total of €70m for acquisitions, of which the most significant were those corresponding to a further 37% of BMB, of which Indra now holds 50% of the share capital, and 49% of Indra ATM, of which Indra now holds 100%.

Taking into account these applications of cash, as well as the aforementioned effect of the cancellation of the deposits associated with the financial coverage of the stock options plans, and which have contributed €46m in cash during 2005, the net cash position at the close of the year stood at €54.1m. This figure is €74m lower than the €205.2m corresponding to the previous financial year 2004, which figure is slightly higher than what was reported at that time (€198m), due to the effect of the application of the IFRS criteria.

## 8) Human Resources

The total workforce at the close of 2005 stood at 8,282 employees. The increase with regard to the close of financial year 2004 is shown below:

No. Persons	Changes to Consolidated Group	Ordinary variation	Total variation	Variation (%)
Compared to 31/12/2004	584	1,079	1,663	25.1%

13% of the company's staff are located outside Spain, 33% more than at the 2004 close.

As regards Indra's average workforce, this stands at 7,584 employees, 16% more than at the close of the previous financial year. One of the main reasons for this increase in workforce (both average and overall) is the acquisition of 50% of BMB, which company is now consolidated by way of proportional integration. Without taking this acquisition into account, the average workforce would have increased by 696 employees, which is 11%, of which we may highlight the growth in the Latin-American market, due to various services projects in the Brazilian and Chilean markets, where Indra is showing significant growth.

## 9) Tresasury Stock

Using the delegated powers conferred to it at the general meeting of shareholders, the Parent Company directly owns 32,948 shares for Euros 552 million at 31 December 2005.

Indirectly, at 31 December the Parent Company owns 2,281,000 shares for an amount of Euros 38,389 million, corresponding to the Equity Swap contracted with a bank as coverage of the 2005 Options Plan.

In 2005 the Parent Company acquired 9,041,791 own shares (3.01% of annual volume) on the stock exchange (of which 7,694,101 shares were redeemed in accordance with the announced plan) and sold 1,432,226 own shares (0.48% of annual volume).

## 10) Research and Development Activities

Indra has continued making an important effort with human and financial resources by developing services and solutions which position it as technological leader in the different sectors and markets in which it operates. The amount earmarked for research, development and innovation activities accounts for approximately 7.2% of the net turnover of the business during the year.

## 11) Main activity-related risks

Indra confronts the following main risks:

- Strategic and economic environment risks
- Technological risks
- Risks from management of human capital
- Economic, financial and administrative risks
- IT management risks
- Project management risks
- Equity risks

Indra has prepared a risks map through which risks are managed. Risks are detected and the necessary guidelines and monitoring and control systems are established to prevent risks and minimise their impact. Risk management is described in more detail in the Corporate Governance report.

## **12) Shareholder remuneration**

In accordance with the policy for shareholder remuneration, at their annual general meeting held on 27 June 2005 the shareholders approved the distribution of a supplementary dividend of Euros 0.195 per share on account of 2004 profit, equivalent to 35% of the consolidated net profit per share for that year, and up 20% on the prior year. This dividend was effective from 15 July 2005 and totalled Euros 28,484 million. Previously, on 27 January 2005, the board of directors agreed to pay an extraordinary dividend for Euros 0.326 per share.

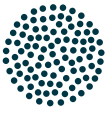
Upon the close of 2005, the board of directors considers that, taking into account the financial position at that date, the expectations for the generation of cash-flow in the medium and short term based on potential organic growth and, also, opportunities for growth abroad which, according to the information available to them to date, could be considered as reasonably probable, the Company is able to apply a policy of a greater distribution of profits through an ordinary dividend, increasing the pay-out from 35%, established at the end of 2003, to a level of between 50% - 60%.

Based on future developments and the Company's financial outlook, the board will consider whether proposing other additional forms of remuneration of shareholders is appropriate.

In light of the above, the board intends to propose to the shareholders at their next general meeting that they approve an ordinary dividend on account of 2005 with a gross value of Euros 0.39 per share, which is double the ordinary dividend paid on account of the prior year and represents a pay-out level of 55%.

## **13) Subsequent Events**

No significant events have arisen since year end.



**Indra**

We wish to thank all our professionals for their cooperation during the preparation of this report.