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**AUDIT AND COMPLIANCE  
COMMITTEE**

**Activities Report 2016**

**Indra**

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February 2017

## INTRODUCTION

For more than seventeen years, ever since its shares began trading publicly, Indra has had in place a corporate governance system which has remained in continuous compliance with best national and international practices as well as applicable law.

An Audit and Compliance Committee (hereinafter the "Committee") has been part of the framework of this corporate governance system at Indra since 1999. Its powers, composition and operating rules have always been regulated by the Rules of the Board of Directors ("Board Rules") and have complied generally with and even exceeded the requirements of applicable law. The Committee has vigorously undertaken the duties within its competence since its inception, as has been reported in the annual public reports on Corporate Governance of the Company.

After publication of *Ley 44/2002, de 22 de noviembre, de Medidas de Reforma del Sistema Financiero* ("Measures for Reforming the Financial System"), which made it mandatory for all listed companies to form audit committees governed by corporate bylaws, the Company took the steps necessary to adapt its already existing Audit and Compliance Committee to the new legal framework. As a result of this process, regulation of the Committee was incorporated into the bylaws of Indra ("Bylaws") at the Annual Shareholders Meeting (in general "Meetings") held 28 June, 2003.

The mandate and procedures of the Committee have been continuously updated to keep them in compliance with multiple legal changes as well as those in the Recommendations in areas of Corporate Governance. Modifications during the last few years of Company internal operating procedures have faithfully reflect those changes.

Also, applying best practices of transparency in corporate governance, since fiscal 2003 the Annual Activities Report of the Committee at Indra has been made available to the Shareholders upon call of Meetings and may be reviewed on the corporate website as well as by requesting a free copy from the Shareholder Office.

The present Activities Report of the Committee of Indra corresponds to fiscal 2016 and was approved at the Committee meeting held 20 February 2017 and will be made available to the Shareholders upon call of the 2017 Meeting; first call scheduled for 29 June, 2017 and second call 30 June.

## COMPOSITION, APPOINTMENT AND PROFILE OF MEMBERS

In accordance with the Board Rules and the Bylaws, the Committee is composed exclusively of external Directors whose membership is to be between three and six. The current composition of the Committee is as follows:

### Chairman

**Mr. Ignacio Santillana**

*(Independent Director)*

### Members

**Mr. Juan Carlos Aparicio**

*(Proprietary Director named upon proposal by Sociedad Estatal de Participaciones Industriales - SEPI --)*

**Mr. Luis Lada**

*(Independent Director)*

**Mr. Enrique De Leyva**

*(Independent Director)*

**Mr. Santos Martínez-Conde**

*(Proprietary Director named upon proposal by Corporación Financiera Alba, S.A.)*

**Mr. Alberto Terol**

*(Independent Director)*

The Chairman of the Committee must be an Independent Director and, in accordance with Board Rules, either the Secretary or Vice Secretary of the Board of Directors acts as the Secretary of the Committee.

As can be seen from the list above, of the six outside Directors who make up the Committee, four are Independent.

During fiscal 2016 Mr. Luis Lada was named as a member of the Committee, increasing the total membership to six.

A brief professional profile of each of the members of the Committee follows:

### Ignacio Santillana

Born in 1948. PhD in Economics (1978) from the University of Indiana and Doctorate in Economics from the Universidad Autónoma de Madrid (1980). Since December, 2012, he has been Chairman of the Board of Grupo Santillana Educación Global, S.L. and a member of the board of Prisa Radio, and Cadena Ser. While at Grupo Prisa he served as COO. Before that, he spent his career in the United States as Executive Vice President

at G.T.E. and at Telefónica, where he served as CFO, CEO of Telefónica Internacional, and General Manager of Telefónica. Earlier, he was Chairman of the Empresa Nacional de Innovación and Economist at the Asociación Española de la Banca Privada. He is a member of the board at the Escuela de Finanzas, AFI. In 1974 he was awarded the Juan March scholarship and in 1978 was a Fulbright scholar.

Other highlights of his career: Chairman of Nokia España and of its Advisory Committee, Director of Banco Gallego, and member of the Advisory Boards of Accenture, Eptisa, and Fundación Albéniz.

### **Juan Carlos Aparicio**

Born in 1955. Degree in Chemistry. Expert in Business Organizations and Vice Secretary to the Federación de Empresarios of Burgos.

He has a wide range of experience in national, regional and local government. He served as Vice President and member of the Consejería de la Presidencia of the regional government of Castilla y León until 1989, Secretary of State for Social Security (1996 - 1999), Minister of Labour and Social Affairs (1999 - 2002) and Mayor of Burgos (2003 - 2011). As a member of the national legislature for several terms, he has been active in several congressional committees, notably Chairman of the Interior Committee during the present congress.

In the field of business, he has served on the boards of Iberia and Banco Exterior de España, and was Chairman of the Board of PARKMUSA, as well as the Asociación del Plan Estratégico for the City of Burgos and of CETABSA.

### **Luis Lada**

Born in 1949. Telecommunication Engineer and *Académico de Número* of the Royal Academy of Engineering, with a long career in Grupo Telefónica where he has been chairman of Telefónica Móviles and Telefónica de España. Additionally, he has been a director and leading member of many companies and organizations related to IT. He is an advisor to Assia Inc., independent director at ENCE, Energía y Celulosa, S.A., and a director at Gamesa Corporación Tecnológica, S.A.

### **Enrique de Leyva**

Born in Sevilla, 1959. Civil Engineering degree from the Universidad Politécnica de Madrid and MBA from Columbia University. Currently he is a Founding Partner at Grupo Magnum and Chairman and Chief Executive Officer of several companies within the group (among them, Chairman of Grupo ITACARE). Additionally, he is a member of the Advisory Board of Abante Asesores y Ambiente Sgr. S.p.A.

His professional career began at Unión Fenosa (1983-1986), then McKinsey & Company, Inc. (1986-2006) where he was CEO of its Spanish affiliate, and Magnum

Industrial Partners, S.L., where he has been a partner since 2006. He has been Chairman of Grupo Geriatros, Nace Schools, and Pretersa-Prenavisa, as well as director at Centro Médico Teknon, S.L., Iberwind, and Bio Oils, S.L.

### **Santos Martínez-Conde**

Born in Santander in 1955. Civil engineer, MBA from the Instituto Católico de Administración y Dirección de Empresas and a degree in Nuclear Technology from the Instituto Católico de Artes e Industrias. CEO of Corporación Financiera Alba, S.A. Also, he is a director at Banca March, S.A., Actividades de Construcción y Servicios, S.A., of Acerinox, S.A., of Bolsas y Mercados Españoles, S.A., and of sociedad Holding de Mercados y Sistemas Financieros, S.A.

He has spent his career in various engineering and financial companies, such as: Sener, Técnica Naval e Industrial, S.A. (1979-1980), Técnicas Reunidas, S.A. (1980-1987), Bestinver, S.A. (1987-1990), Corporación Borealis, S.A. (1990-1994) and Banco Urquijo, S.A. (1994-1998). He has held the post of director in numerous listed and non-listed companies in a wide range of industries.

### **Alberto Terol**

Born in 1955. Degree in Economics and Business Administration from the Universidad Complutense de Madrid. He began his career at Arthur Andersen where he was made partner and headed various projects. He was a member of the Board of Partners of Andersen Worldwide and of the Executive Committee in Europe. He has been Managing Partner of Garrigues-Andersen. He filled the post of head of Europe for Andersen for a year and a half, and was a member of the Worldwide Executive Committee. He was also director of the global Legal and Tax practice at Arthur Andersen. He was a member of the Executive Committee for Deloitte, where he was head of Latin America and later of Europe, Middle East and Africa. He was also director partner of the global Legal and Tax Practice and was International Senior Advisor to BNP Paribas.

Currently he is Chairman and CEO of several family businesses and Independent Director at International Airlines Group, S.A. where he is a member of the Audit, Committee and of the Compensation Committee, and independent director at Broseta Abogados.

## DUTIES AND POWERS

Article 18 of the Board Rules empowers the Committee, in addition to those assigned to it by applicable law, with the following competencies:

- a) Ensure that the Board of Directors is able to present financial statements in the auditors' report to the Annual Meeting which do not contain limitations or reservations.

In those exceptional cases where a reservation might exist, the chairman of the Audit Committee as well as the auditors will clearly explain to the Shareholders the substance and the scope of said limitations or reservations.

- b) Supervise the Company's internal audit team to ensure that it properly manages internal information and control systems.
- c) As regards internal information and control systems: (i) supervise the process of drafting financial information regarding the Company and if applicable, the group, and ensure that it is complete. Specifically, review all normative requirements, the proper scope of consolidation and the entirety of applicable accounting rules; (ii) ensure that internal audit is independent; propose the selection, appointment, re-election and dismissal of the head of the internal audit service; propose the budget for such service; approve its goals and work plans, ensuring that its activities are focused primarily on material risks to the Company; receive periodic information on its activities; and verify that senior management considers the conclusions and recommendations contained in its reports; and (iii) establish and supervise measures whereby employees can confidentially report, and where possible and appropriate anonymously, any potentially significant irregularities that they detect in the Company, especially those of a financial or accounting nature.
- d) As regards the external auditor: (i) in the event of resignation of the external auditor, examine the circumstances which led to it; (ii) ensure that the compensation paid to the external auditor does not compromise its independence; (iii) propose that the Board file a Report of Material Fact to the *Comisión Nacional del Mercado de Valores* ("Spanish Securities Market Commission" or "CNMV") when there is a change of auditors, along with a statement relating any disagreements that arose with the outgoing auditor and, if applicable, the contents thereof; and (iv) ensure that the Company and the external auditor comply with applicable law regarding delivery of services other than auditing, regarding limits on the concentration of the auditor's work and, in general, rules regarding the independence of the auditors.

During fiscal 2016, the Committee carried out each and every one of the above mentioned powers and duties, including other matters which it considered appropriate for the exercise of its competencies and in the interests of the Company.

## **ACTIVITIES DURING FISCAL 2016**

### **COMMITTEE MEETINGS**

The Committee held 13 meetings during fiscal 2016, 10 of them regularly scheduled and 3 extraordinary.

This means that, considering the time necessary to prepare for meetings and the average amount of time spent at them, each member of the Committee spent about 62.4 hours attending to matters within its purview during fiscal 2016. Average physical attendance at Committee meetings was 98.61% and 100% in the case of Independent Directors.

Meetings of the Committee are held with sufficient notice so that members may analyze all of the documentation and information relative to the matters to be taken up at each meeting, which information is delivered upon call to meeting.

Also, the Chairman of the Committee gives reports to the Board regarding the Committee's activities and the decisions adopted by it in each of its regularly scheduled sessions.

In order to properly plan and organize its work, the Committee develops and approves an Action Plan at the beginning of each fiscal year. The Action Plan for fiscal 2016 contained ten scheduled regular meetings along with the agenda for each meeting.

The principal matters discussed and analyzed by the Committee during fiscal 2016, and which fall within the Committee's area of responsibility, can be divided into the following areas:

### REVIEW OF FINANCIAL INFORMATION

- Analyze and review the Annual Financial Statements and interim reports to be produced by the Board
- Supervise preparation and presentation of financial information to the *Comisión Nacional del Mercado de Valores*
- Review of specific matters related to financial information which may impact the company's results

### EXTERNAL AUDIT

- Oversee audit of the Annual Financial Statements, interim financial statements and the ICFR
- Oversee implementation of recommendations of the external auditor
- Propose appointment of the external auditors
- Report on the Independence of the external auditor

### INTERNAL AUDIT AND RISK MANAGEMENT

- Ensure the effectiveness of internal control of the Company
- Approve the Risk Management and Control Policy
- Oversee compliance with recommendations of Internal Audit
- Spot audits as required by the Committee
- Review activities of Internal Audit and approve the annual Action Plan and budget

### COMPLIANCE

- Training and communication of the Model for Legal Risk Prevention and of the Code of Ethics Legal Compliance in Spain and updating of the Model for Legal Risk Prevention internationally
- Review and updating of tools for internal crime prevention in Spain
- Analysis of current significant open cases
- Annual review by the Committee of the Compliance Unit, of its director, and approval of its annual Action Plan and budget

### EXTRAORDINARY MATTERS

- Issuance of Convertible Bonds
  - TecnoCom Tender Offer



## REVIEW OF FINANCIAL INFORMATION

### 1. Review of the Company's Annual Financial Statements

The Committee, using the external auditor's report to aid in its analysis, reviewed the Management Report and the Individual and Consolidated Annual Financial Statements for fiscal 2015 during its meeting held in March, 2016 and before their preparation by the Board, giving a favourable opinion.

### 2. Review of Information Delivered Periodically to Markets and Supervisory Bodies

Before approval by the Board, the Committee reviewed the quarterly and semi-Annual Financial Statements published to the CNMV for fiscal 2016, verifying that their preparation was done using the same criteria as the Annual Financial Statements.

As regards the condensed consolidated interim financial statements, the Committee reviewed with the external auditor those matters which the auditor took into account in issuing its limited review report.

In carrying out its oversight duties regarding the creation of Company and Consolidated Group financial information and their integrity and regarding review of compliance with legal requirements, proper scope of consolidation and appropriate application of accounting standards, the Committee made recommendations regarding the clarity, posting or presentation of some items.

In order to ensure timely compliance with the Company's obligations to present this information to the CNMV, the Committee met with the Company CFO to review matters related to periodic financial information.

## EXTERNAL AUDIT

### 1. Proposal of External Auditors

In performing its duty under the Bylaws of proposing to the Board designation of external auditors of the Annual Financial Statements, as well as terms of engagement, scope of duties and, when applicable, dismissal or non-renewal of their contract, the Committee discussed the independence requirements contained in *Ley 22/2015 de Auditoría de Cuentas*, as regards the number of years that a firm may continue auditing

a listed company, and the appropriateness of opening the bid process for selection of new Account Auditors for the upcoming fiscal years.

The procedure was designed to ensure the maximum independence of the Committee, and several well respected auditing firms with international experience were invited to participate. Also, the Committee adopted appropriate measures in order to guarantee that the selected firm possessed the requirements of suitability, independence, and compatibility required by the law cited above.

After considering the proposals presented and other factors, the Committee proposed that the Board select Deloitte, S.L. as Account Auditor for Indra Sistemas, S.A. and its Consolidated Group for fiscal 2016, 2017 and 2018.

This proposal was then brought by the Board to the Annual Shareholders Meeting, where it was approved.

**2. Audit Fees and Report Regarding Auditors’ Independence**

In discharging its duty to evaluate any issues that might put the independence of the external auditors at risk, the Committee reviewed and authorized the fees paid to the audit firm apart from those charged for preparation of the Annual Financial Statements. It also looked at the fees charged by the audit firm in terms of the auditors’ overall revenues.

The fees charged by the current external auditors (Deloitte) in fiscal 2016 for all items are as follows:

	1000's of Euros
Audit of Annual Financial Statements	1,732
Other Services	507
<b>TOTAL</b>	<b>2,289</b>

As regards the audit of Annual Financial Statements for fiscal 2015 carried out by the auditing firm KPMG, and in compliance with applicable law, the Committee also issued

its annual report regarding the independence of the auditors before the drafting of the auditor's report for fiscal 2015.

In order to compile this report, the Committee reviewed compliance with the following criteria:

- Verified that the auditor was not involved in any circumstance, relationship or situation that might compromise its independence.
- Analyzed the fees paid during the fiscal year as a percentage of its gross billings and came to the conclusion that the fees paid by Indra did not affect its independence in any way.

Additionally, KPMG expressly stated that they had maintained their independent status by means of a letter dated 10 March, 2016.

The report regarding the independence of the auditors as well as the letter confirming independence referenced above were made available to the Shareholders upon call of the Annual Shareholders' Meeting, consistent with the provisions of Recommendation 6 of the Code of Good Governance for Listed Companies.

### **3. Oversight of the Financial Statement Audit Process**

In fulfilling its role of guaranteeing compliance with the audit contract, during fiscal 2016 the Committee ensured that the opinion regarding the Annual Financial Statements and main portions of the audit report were drafted in a clear and accurate manner by supervising the audit process for the financial statements from the planning stage through development and to its conclusion. The Committee evaluated the progress and the results of the audit and the auditors' work, thoroughly examining the reports created by the external auditors as they related to:

- The final conclusions regarding the auditors' work on the Annual Financial Statements for fiscal 2015.
- The final audit report regarding fiscal 2015 individual and consolidated financial statements, issued without qualification or reservation.
- The report on recommendations for improvement in administrative procedures and internal control stemming from the fiscal 2015 audit of the Annual Financial Statements.
- Planning and preliminary work for the audit of Annual Financial Statements for fiscal 2016.
- The limited review report for the first half of fiscal 2016.

- The preliminary audit report for fiscal 2016 financial statements.

In order to make a proper evaluation of the above mentioned items, the partners at KPMG responsible for the audit of accounts for fiscal 2015 met with the Committee five times. Additionally, the Deloitte team responsible for the audit of fiscal 2016 financial statements attended four meetings.

#### **4. Evaluation of Compliance with the Recommendations Arising from the Audit of the Financial Statements**

Pursuant to its responsibility for evaluating the response of the management team to the recommendations of the auditor, during fiscal 2016 the Committee reviewed implementation of the recommendations issued after the fiscal 2015 audit of the financial statements and confirmed that the majority had been satisfactorily resolved.

Additionally, the Committee reviewed implementation of means to improve organization, processes and information and control systems agreed to during 2015.

### **INTERNAL AUDIT, INTERNAL CONTROL, AND RISK MANAGEMENT**

#### **1. Internal Audit**

The Committee is responsible for supervising the work of Internal Audit of the Company and reviewing the appointment and substitution of those responsible. Since fiscal 2014, management of Internal Audit reports directly to the Committee.

During fiscal 2016 the Committee supervised the work plan for the Internal Audit Department and approved its budget, the resources to be made available in order for the Department to do its work, and its Annual Audit Plan.

The head of Internal Audit made regular reports to the Committee regarding progress of the Annual Audit Plan as well as work done in specific areas of internal audit.

The primary aspects of the Work Plan can be divided into the following categories:

- Performance of audits intended to insure the reliability of financial information, with a focus on those accounting estimates with the most significant impact on Company assets.

It should be pointed out that assurance of the accuracy of financial information was one of the key objectives of the Internal Audit function during 2016, its review activities having been focused on the following areas:

- R & D Projects: Review of the approval and follow-up processes for investments, development and approval of Business Plans as well as an analysis of progress and achievement of Business Plans.
  - Evaluation of Inventory and DPF: Exhaustive recoverability of inventory and accumulated DPF evaluations are done semi-annually for projects.
  - Assessment of reserves for client insolvency: Exhaustive payment risk assessments for accumulated debt are done semi-annually for projects.
- The performance of audits designed to ensure a robust and effective Internal Control System (review of process design and testing of their effectiveness, including annual review of the ICFR).

The processes which were audited in fiscal 2016 were the following: (i) Measurement of Progress; (ii) Project Management; (iii) Cost Management for TPG; (iv) Procurement Management; (v) Management of Variable Compensation; (vi) Planning and Dedication of Resources; (vii) Currency Operations; (viii) Management of Permanent Facilities; (ix) Management of Plant and Equipment; and (x) Employee and Travel Expenses.

- Performance of unplanned audits (compliance audits and work requested by the Committee and/or Senior Management of the Company).
- Follow-up of recommendations arising from the audits done in 2015 and 2016, primarily through control and assurance activities regarding implementation of promised Action Plans.
- Improvements in internal processes and methodology.

As regards geographical zones, the most significant ones were included in the Action Plans for review during fiscal 2016: Spain, Brazil, Mexico, Argentina, Norway, Chile, Peru and Australia.

The criteria for their selection were the volume of their key performance indicators and their materiality for 2015, representing more than 80% of the key performance indicators for the Group.

Said Action Plan was updated during the September meeting so as to be integrated into the transformation process of the Company begun in 2015 and continuing during fiscal 2016.

In December, 2016 the Committee approved appointment of a new head of Internal Audit and Global Risks, who will continue to report directly to the Committee.

## **2. Annual Evaluation of Internal Control Over Financial Reporting (ICFR)**

The Committee is responsible for the effectiveness of internal control within the Company relating to the process of creation and presentation of regulated financial information, with support from Internal Audit.

Indra, aware of the interests of the markets and other interested parties, and in compliance with the recommendations published by the CNMV in February, 2010, began to submit itself to a voluntary review process for its ICFR in 2011 with the following primary goals:

1. Guarantee efficiency and security in the processes of preparing financial information in order to minimize the possibility of error.
2. Follow new regulatory requirements in internal control and corporate governance matters and quickly adopt best international practices.
3. Position the Company as one of the leaders in internal control and corporate governance matters.

The Committee periodically reviews established procedures in order to evaluate the effectiveness of internal control, specifically:

- Analyze the capability of internal control over established procedures in the Company and its subsidiaries.
- Verify if potential deficiencies exist in internal control procedures and what response capability the Company has.
- Supervise and coordinate significant modifications made to internal controls as they relate to financial information.
- Review and verify that proper criteria are used in closing procedures for financial statements.
- Conduct a periodic review of corrective measures taken in response to weaknesses identified in audits.

As a result of this process and in order to improve transparency and the quality of public ICFR information issued by the Company to the markets, Company management publishes annually a description of its ICFR following the sixteen core indicators recommended in the CNMV document.

Additionally, since fiscal 2011 Indra has voluntarily submitted its ICFR to the Company auditor for evaluation, meaning that the Company is closely observing the benchmarks included in the above referenced CNMV document, and receives an annual report from the external Auditor regarding the ICFR and which is made public along with the consolidated Annual Financial Statements.

The scope of the review during fiscal 2016 included, in addition to the principle domestic companies, the five geographic regions most representative of the Group: Mexico, Italy, Colombia, Brazil, and Chile.

During the fiscal year, the head of Internal Audit and Global Risks reported to the Committee regarding the scope of work evaluating ICFR of the Group and regarding the procedures, controls and methods making up the process which has been uniformly implemented the group as a whole. Finally, the Committee received a report on the results obtained from the analysis of the effectiveness of ICFR in which it was concluded that the operation of its controls did not present material deficiencies or weaknesses.

### **3. Risk Management**

The Committee is aware of the importance of managing risks that the Company faces in order to do adequate strategic planning and to reach defined business goals, primarily in the area of growing internationalisation.

The first step in properly managing risks is to continually update the Company risk map. In order to accomplish this, in fiscal 2016 the Committee placed special emphasis on the need to evaluate the risk profile of the company and to continuously update the risk map.

After analysis of the updated risk map, the Committee considered it necessary to refocus the work and draft a new Risk Management and Control Policy, which was approved by the Board of Directors during its March meeting.

Also, the Committee resolved to hire an outside advisor (PwC) in order to review the risk management system of the Company and in order perform a diagnosis of the

situation. Said review had as its goal an analysis of the Company's risk inventory as well as procedures for evaluation/measurement of those risks.

After said review, areas of improvement were defined which will be implemented during the course of fiscal 2017, supplying the organization with an integrated Risk Management System which will promote a corporate culture of preventative management. Redefinition of the methodology for quantitative evaluation of risks was done with the goal of obtaining more homogenous management models in the various areas. Also, the system for qualitative measurement of risks which are not quantifiable was completed.

These measures were accompanied by the establishment of specific policies in the most important areas which will permit (i) definition of risk tolerance for distinct categories; (ii) determination of acceptable thresholds by unit and type of risk; (iii) establishment of indicators for monitorization of potentially critical risks for the Company.

Finally, intense work was done in completion of the formal channels of reporting on risk identification, evaluation and management, with the goal of establishing a more efficient system which will ensure a proper flow of information to the Committee and other responsible bodies, especially for those risks which exceed tolerance levels.

For this, the Committee supervised the following initiatives designed to improve risk management:

- Definition of functions and responsibilities among corporate functions, markets, horizontal/production units, and geographic zones in order to improve organizational function
- New models for Control of Risk, Profitability and Treasury (Committee for Execution and Follow-up of Operations, Business Development Committees, Treasury Committees, new reporting tools)
- Talent Management Plan (Career Plans, Corporate University, Talent Generation)
- Strategy and new Innovation Model
- Plans for distribution, transformation and development of new business in IT, Defence, ATM, and Transport
- Business transformation plans, account plans, and Go-to-Market Strategy
- Plan for delivery improvement, and the standardization and commercialization of production and manufacturing
- Strategy and process model for purchasing



- Short term plan for improvements in margin, efficiency, and costs
  - Plan for pyramid optimization
  - Creation of a Shared Services Centre
  - Plan for reduction of Opex
  - Plan to reduce/close low margin operations

Finally, the Committee reviewed sections E and F of the Annual Report on Corporate Governance regarding internal risk management and control systems with the object that they reflect the features contained in the new Risk Policy approved by the Company.

With the goal of understanding and testing the adequacy and completeness of the process for producing financial information and the proper operation of internal control and risk management systems within the Company, the Committee met with various managers during the fiscal year in order to analyze those areas and aspects it considered necessary to review consistent with the Company Risk Map.

#### ➤ **Integrated Control of Business Proposals**

The Committee received a report from the General Manager of Management, Operations and Processes regarding progress in implementation of improvements in integrated control of business proposals and management of projects approved in 2015, among which are noted: (i) additional support for the New Business Committee after approval by the Board of a new Regulation governing its operations as well as the creation of a portal (ASEGURA) which will facilitate project follow-up, especially those identified as high risk, and will permit a better analysis of them; (ii) improvement of information needed for decision making; (iii) parameterisation of portfolio margin which contributes to effective control of project development; (iv) alignment and homogenization of the mechanisms for measuring degree of progress; and (v) other improvement measures in the accounting processes of consolidation and closing.

#### ➤ **Company Geographic Model**

##### European Region

The Committee received a report from the General Manager responsible for Europe regarding various aspects of internal risk management and control as well as the market and operations.

The Committee analyzed implementation of the new international development model for each of the countries included in this geographic area and noted that the model contributed to better control of operations.

Relationship Model: markets/geographic zones/market sectors

The Committee reviewed with the CEO the new relationship model and functional structuring in countries along the lines of geographic zones, markets, market sectors and production.

➤ **Integration of Internal Processes and Control and Risk Management in Brazil and Latin America**

The Committee, along with the General Managers for specific geographic zones, reviewed during the fiscal year specific aspects regarding internal control and risk management for markets as well as operations.

➤ **Tax Risks**

The Committee analyzed the principal tax risks and the management policy related to them followed by the Company with the primary outside advisor for these matters.

➤ **Project Analysis**

The Committee with the CEO reviewed those projects identified as high risk, and received a report regarding actions taken to minimize risk.

➤ **Purchasing: Organization, Processes and Policies**

The Committee met with the new head of Purchasing and Procurement, who gave a report regarding diagnosis of the situation with the Purchasing Unit and the action plan to implement a purchasing model, especially as regards control of risk of reliance on suppliers.

The Committee reviewed implementation of the model and specifics in various geographic zones.

➤ **Savings and Efficiency Plans**

The Committee received a report regarding initiatives put into place in order to achieve savings objectives made public by the Company. Specifically, the Committee received a report regarding the degree of progress of the Shared Service Centres and regarding

the benefits realized during the fiscal year, the geographic model, phases of the project, investments to be made, and the new contours of corporate functions.

## **COMPLIANCE**

The Compliance Unit, pursuant to delegation by the Committee, is the body charged with carrying out its decisions and ensuring compliance with rules contained in the model for prevention of legal risks. To these ends, since April 2015 it has reported directly and exclusively to the Committee and performs the following tasks:

- Promote a culture of prevention and ensure distribution of the model's precepts
- Analyze legislative changes and developments which might affect the model
- Request information regarding changes in legal risks and preventative measures taken by the Company
- Propose verification of the model and updates it considers appropriate
- Manage communications received through the Canal Directo
- Propose work plans regarding supervision of the model

As an executive area for supervision and control, the Compliance Unit keeps the Committee informed about its activities. For this reason, the head of the Compliance Unit attended all of the regularly scheduled meetings of the Committee.

The primary activities accomplished during fiscal 2016 were the following:

### **1. Plan for Communication of the Criminal Risk Prevention Model in Spain and Updating of the International Model**

The Compliance Unit, under the supervision of the Committee, put into place a training and communication program for the Criminal Risk Prevention Model and the new Code of Ethics which were updated and approved during fiscal 2015, with 90% of the team in Spain receiving training in 2016.

Also, during 2016 the prevention model applicable to international affiliates was updated, using the Spanish model as a guide. Said update was validated by an external advisor.

## **2. Activities Regarding Criminal Risk Prevention Controls**

The Compliance Unit analyzed the controls for prevention of criminal risk which were identified during the update of the Model during fiscal 2015 with the goal of bringing them current and reducing their number.

Additionally, a self evaluation was done of the controls by means of "Self Evaluation Statements" sent to those decision makers who were involved, with the goal of testing their design and effectiveness.

## **3. Measurement of Criminal Risks**

During fiscal 2016, the Compliance Unit drafted a global methodology for measuring criminal risks which will be implemented during fiscal 2017.

## **4. Meetings with Decision Makers for Organizational Areas of the Company**

During the months of June and July the Compliance Unit held meetings with those in charge of the organizational areas of the Company with the goal of identifying challenges in applying the Criminal Risk Prevention Manual and to plan additional training sessions in identified subjects.

## **5. Protocols and Procedures**

The Compliance Unit designed the following internal protocols:

- Conflicts of interest between the head of the Compliance Unit and members of the Committee
- Control and custody of Model documents

Also, it has drafted and/or revised, in collaboration with various areas of the Company, the following procedures:

- Procedure for Contracting Business Consultants
- Procedure for paying personnel expenses of clients as anticipated contractually

## **6. Management of the Canal Directo**

The Compliance Unit was placed in charge of management of communications received through the Canal Directo and delivered files as necessary.

## OTHER ACTIVITIES

### ➤ Investor Relations: Presentation and Activities with Analysts and Investors

The Committee received a report from the Director of Investor Relations regarding proceedings during 2015, improvement measures introduced regarding the prior investor relation policy, results achieved, and the action plan for fiscal 2016.

### ➤ Non- Routine Matters

In accordance with the provisions of Recommendation 44 of the Good Governance Code for Listed Companies, the Committee reported to the Board regarding:

- The Proposed Spin-off within the framework of the Project creating a Shared Services Centre, which was later approved at the Annual Shareholders Meeting.
- The terms, consequences, and accounting treatment for the issuance of convertible bonds and a partial redemption of bonds issued in October 2013 before approval of the same by the Board of Directors.
- The financial terms, the accounting impact and especially the swap formula proposed in the Tender Offer for 100% of the shares of Tecnocom.

## ANTICIPATED ACTIVITIES FOR 2017

In accordance with the Action Plan of the Committee for 2017 as approved by it, the Committee plans to meet ten times in regular session during which, in addition to reviewing matters which are of a recurring nature every year, it will continue to pay special attention to matters relating to risk management, bid and project management, and application criteria for measuring revenue recognition, DPF, inventory, clients, and intangibles.