



# Risk Control and Management Policy

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# 1 Introduction

The Corporate Enterprises Act<sup>1</sup> includes as one of the non-delegable powers of the Board of Directors the approval of a risk control and management policy, while the Listed Companies Good Governance Code sets out the content that the aforementioned policy must have.

In this regard, the Board of Directors and Senior Management of the Indra Group have driven forward a process to identify the main risks of the Group and the appropriate control and information systems to enable periodic monitoring of these risks based on risk control and management, which is the responsibility of each and every member of the Indra Group, which aims to provide reasonable assurance of the achievement of the established objectives, and provide value and an appropriate level of assurance to shareholders, other stakeholders and the market in general.

This policy has been systematized with the aim of appropriately mentioning and describing the key principles for risk control and management at the Indra Group.

## 2 Purpose

At a global level, the purpose of this policy is to establish the basic principles and guidelines of action to ensure that risks of any nature that could negatively affect the achievement of the objectives of the Indra Group are identified, analyzed, assessed, managed and controlled systematically, with uniform criteria and within the established thresholds or tolerance levels.

## 3 Scope

This policy applies to all the companies that make up the Indra Group.

In associates in which the Risk Control and Management Policy is not applicable, principles and directives that are consistent with those established in this policy will be promoted, ensuring that adequate information channels are maintained to guarantee their knowledge.

## 4 Risk factors

Risk is generally understood to be the impact (both positive and negative) of the uncertainty regarding the achievement of the objectives or of reasonable business expectations. For the purposes of this policy, risk factors are considered to be any risk that a potential event, action or omission will negatively impact these objectives or expectations of the Indra Group. Opportunities are considered to be the positive impact of uncertainty regarding the objectives.

While conducting its business activities, the Indra Group identifies various risks inherent to the various regions and businesses in which it operates, including the following:

- **Strategic Risks** arising from the Indra Group's strategic position in the environment in which it carries out its activities, relations with third parties, the portfolio of products and services, as well as planning and organization, which may result in difficulties in meeting the objectives defined in its Strategic Plan.

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<sup>1</sup> Article 529 of the Corporate Enterprises Act. Royal Legislative Decree 1/2010, of July 2, which approves the revised text of the Corporate Enterprises Act and the Law of 31/2014, of December 3, amending the Corporate Enterprises Act to improve corporate governance.

- **Operational Risks** relating to direct or indirect economic losses caused by inadequate internal processes, technological failures, human errors or as a consequence of certain external events, specifically including risks associated with project management, human capital and information technology.  
Among these, special mention must be given to risks deriving from possible risks associated with projects and services that require proactive actions by project managers to mitigate their possible effects, from the point of view of preparing bids and negotiating contracts, as well as execution and delivery.
- **Financial Risks** associated with changes in the financial and/or goods and services markets that affect the costs and revenues of the activity, including areas related to the management of exchange rates, liquidity or interest rate risk, and credit risk related to the possibility that a counterparty fails to comply with its contractual obligations and produces an economic or financial loss for the Indra Group.
- **Compliance Risks** associated with non-compliance with legal provisions, regulations in general, standards adopted, and codes of conduct applicable to the activity, in all markets in which the Indra Group carries out its activities, and which may entail sanctions and/or damage to its reputation, consequently causing an adverse impact on its results and/or capital, and/or on the expectations as to the growth and performance of the businesses.  
Compliance risks fundamentally include those relating to the areas of crime prevention of legal entities, fraud, and legal obligations arising from the activities of the Indra Group.
- **Tax Risks** associated with decision-making in the tax area, whether by the Indra Group or by tax or legal authorities, which could have a negative impact on the financial statements or reputation of the Indra Group.

## 5 Key principles

To fulfill the commitment expressed, the Board of Directors, through its Audit and Compliance Committee, supervises the adaptation of the internal assessment and control system for the relevant risks, establishing the following key operating principles within the framework of its Risk Control and Management System, inspired by the methodological framework established in COSO II - Enterprise Risk Management Framework<sup>2</sup>, adapted to the needs and specificities of the Indra Group:

1. **Protection of value:** Risk control and management is considered to be a system for creating and protecting the value generated for all relevant interest groups by aligning the acceptable level of risk with the capacity to manage risks and opportunities.
2. **Integrity:** The Risk Management and Control System covers the entire Indra Group at the corporate level and at the various business units, regardless of their geographical location, and it forms part of the strategic planning process, when defining business objectives, and in daily operations in order to attain those objectives.
3. **Consistency:** Establishing a common definition of risk, considering any potential event that could negatively affect compliance with business objectives or expectations to be a risk.
4. **Independence:** Indra's Risk Control and Management System ensures adequate segregation of duties among its various areas, i.e. among the areas that assume and manage risks and the areas responsible for coordination, control, and oversight.
5. **Proactivity:** Development of proactive risk management included in the design of the control processes that help to mitigate risk, implement contingency plans and establish hedges for risks where possible.
6. **Coherence:** Risk management generally must be applied using coherent criteria regarding the importance of the risk and the cost and resources that are necessary to reduce the risk. The Risk Control and Management System must also be consistent with other Indra Group processes and its business model.
7. **Information:** It must be ensured that there are mechanisms in place that ensure adequate reporting to risk control bodies at the company (Senior Management, Audit and Compliance Committee and the Board of Directors).
8. **Continuous Improvement:** The aim is to improve risk management throughout the organization (functions, operational units and divisions) to improve the efficiency and usefulness of business risk management at all levels based on best practices, business context, risk appetite, learning and experience in its development.

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<sup>2</sup> Enterprise Risk Management–Integrated Framework published by COSO (Committee of Sponsoring Organizations of the Treadway Commission) in 2004. Updated in 2017 to "Enterprise Risk Management–Integrating with Strategy and Performance".

## 6 Criteria for risk tolerance levels

The Indra Group Risk Control and Management Policy is aimed at achieving a balanced profile in terms of risk/opportunity through suitable management. The tolerance framework is established in accordance with guidelines, standards, and procedures that ensure that the management environment maintains risks within acceptable levels. In this regard, the Indra Group does not seek to eliminate all risks, but rather take on a prudent level that enables recurring and sustainable generation of value, optimizes opportunities and maintains acceptable levels of risk.

Risks that are outside the established tolerance levels must be subject to actions to once again reach the desirable levels, to the extent that the risk is manageable and the cost of the measures for their mitigation are justified by the effect that the materialization of the risk may have on the Indra Group.

Overall, non-financial risks linked to the company's activity and which are related to environmental, social and governance aspects, fall into the categories of strategic, compliance and operational risks.

### 6.1 Strategic Risks

Within the objective of fulfilling its Strategic Plan, the Indra Group will focus its efforts on monitoring the profitability of the businesses in the areas in which it operates and on the investment in new technologies that improve its product and project portfolio and facilitate adaptation, progress and the achievement of strategic business objectives and impact on society. Moreover, in relation to the geographical environments in which it operates, the Indra Group will develop its business strategies within the general criteria of prudence and under a framework that values the risks of international socio-economic situations, including political risks.

### 6.2 Operational Risks

In the scope of the business, controls will be established with the aim of anticipating, mitigating or avoiding possible adverse effects that the materialization of the risks in Indra Group operations might have on compliance with the economic and strategic objectives of the Indra Group. The main operational risk management criteria are as follows:

- In relation to the risks associated with project contracting, and in this preventive spirit, it has a rule that regulates the risk identification mechanisms in the bid phase of the projects, ensuring that the commitments entered into by the Indra Group will enable the sustainable and reasonable maintenance of profitability and cash generation objectives
- In respect of the projects underway, execution is monitored by identifying significant deviations that could risk compliance with the objectives, establishing measures aimed at mitigating or correcting the potential impact, in addition to establishing the supervision and control mechanisms necessary to ensure the correct implementation of the measures decided in each case. The Indra Group carries out ongoing analyses of the expected future profitability of projects under way and periodical reviews of the project portfolio, identifying those whose current development shows indications of possible losses.

The contracts that the Indra Group enters into with its customers usually contain provisions designed to limit liability for damage caused, or defects or errors in its products or services. Third-party liability insurance is also in place to cover, as far as possible, customer claim costs

- Identifying, capturing and actively managing personnel are priority objectives of the management of risks associated with the management of human capital, based on the principles of diversity and equal treatment and opportunity, which include social climate risks, socio-labor conflicts, hiring and training, compensation and benefits and health and safety. The sectors in which the Indra Group operates feature a high degree of specialization, due to a high rate of innovation and constant technological change, which requires the Company to have highly qualified staff at all times and who are equipped with specific know-how to develop its projects, most of which have a high technological component.

The Indra Group dynamically establishes policies and controls to attract, retain, and train suitable professionals at all times, avoiding turnover in certain professional groups with a high replacement cost.

Similarly, the Indra Group has various mechanisms and protocols in place to safeguard the personal safety of its employees.

- The Indra Group manages technological risks and risks associated with information security, including industrial security for the protection of classified information, ensuring adequate protection of the information of the Group and its customers, and also the technological assets that process this information. The Group adopts technology protection mechanisms against copies, viruses, unauthorized accesses, identity theft, hardware and software failures, computer fraud, loss of computer records, and technical problems, among others. The Indra Group's Code of Ethics and Legal Compliance establishes that all employees are obliged to protect technology and know-how

- Other operational risks, including environmental, reputational and risks related to customers and suppliers, among others, are managed proactively by the various business units and through management procedures in the Group's main processes
- Moreover, the Indra Group will continue to develop its policy on the transfer of risks to third parties through insurance of various types aimed at covering the impact of claims arising from our operations that affect people, the assets of the Indra Group and its customers, within the coverage and cost parameters accepted in the industry.

## 6.3 Financial Risks

The Indra Group establishes its goal of adding value to interest groups targeting returns and sustainability, based on aligning the growth and development of the business with suitable controls on financial risks.

The main criteria for managing financial risks, that is, credit, liquidity and market risks, including exchange rate and interest rate risks, as well as other risks arising from the funding structure, are as follows:

- The general criterion is to proactively manage financial risks related to debt, liquidity and funding levels of the Indra Group, ensuring that they are within the thresholds that will ensure viability and strategic flexibility within a reasonable profitability framework for shareholders, even under adverse economic circumstances
- Measures will be taken to mitigate the impact of adverse exchange rate movements or certain capital control measures on the Indra Group's performance and results as a consequence of currency cash flows derived from current commercial and financial operations undertaken. Specifically, given the strong international presence, exchange rate risk is based on the following management principles:
  - Firstly, with regard to exchange rates, the Indra Group monitors the impact of adverse exchange rate movements on the Group's income statement and balance sheet, analysing the possible use of hedging instruments as appropriate.
  - Secondly, in foreign currencies and at project level, there is a policy of entering into exchange rate hedging contracts with financial institutions that replicate the expected patterns of net flows derived from collections and payments to mitigate the risk of income and expenses of projects in currencies other than the functional currency.
  - With regard to country risk, whenever possible, the Indra Group considers using confirmed letters of credit and insurance coverage in countries with limited solvency or high country risk.
  - With respect to customer credit risk, the Indra Group regularly assesses the use of operational (letters of credit or collection insurance), accounting (provisioning) and financial (use of non-recourse factoring) measures to mitigate the impact of counterparty risk for certain customers.
  - To manage liquidity risk, the Indra Group monitors cash flow forecasts and available funds with the aim of ensuring that it has access to the resources necessary to meet its financial commitments arising from operational, investment, or funding needs, anticipating liquidity problems and, where applicable, taking measures to resolve them
  - With regard to its financial structure, the Indra Group adheres to a policy of diversifying its sources of financing in order to mitigate the risk of access to sources of financing and the availability of bonds. Furthermore, the Indra Group continuously monitors the debt ratio
  - With regard to the financial cost and in order to control and mitigate the impact on the income statement derived from the increase in the cost of debt, the Indra Group monitors the evolution of the public and private fixed income markets.
  - With a view to limiting the impact of interest rate risk, arising from the cost of financing the Indra Group at variable interest rates referenced to the interbank markets, the Group issues fixed-rate debt instruments and periodically assesses the advisability of arranging derivative financial instruments with financial institutions to hedge interest rate fluctuations when the situation so advises, taking into account the financial cost of the possible hedging and its possible cancellation.
  - In addition, the Indra Group reports its contingent liabilities and other off-balance risks in the annual accounts

Generally, the aim is to centralize the management of financial risks in the Finance Business Unit, applying the measures and instruments that are needed at the specific point in time.

## 6.4 Compliance Risks

The Indra Group is committed to carrying out all its activities in accordance with the legislation in force, in every scope of action and in every country in which it operates.

The main compliance risk management criteria are as follows:

- As a general criterion in the management of regulatory compliance risks, the Indra Group rejects any unlawful conduct or conduct carried out in contravention of its policies, values and principles. We must always comply with pertinent legislation currently in force and within the framework established by the Code of Ethics and Legal Compliance and comply with internal regulations. In this regard, policies and controls have been established to prevent irregular practices and to identify, assess, manage, and control the risks and of potential associated impact.
- Generally, the management of penal risks and anti-competitive practices is centralized in the Compliance Unit, and the measures and instruments necessary at the specific point in time are applied.
- The Indra Group assesses and classifies possible litigation and claims on a recurring basis based on the best information available at all times. The Group sets aside as a provision 100% of the amount of the proceedings in which it is a defendant and whose risk of occurrence has been classified as probable.
- Other compliance risks, such as risks in the area of crime prevention, including corruption and bribery, disqualification from government contracts, legislative compliance, international trade regulations, intellectual property, data protection, competition, environmental, quality and security requirements, and non-compliance with corporate governance recommendations, are managed proactively by the various business and support units, through management procedures in the main processes of the Group

The Compliance Unit has established compliance risk monitoring indicators, including training ratios and direct channel communications.

## 6.5 Fiscal Risks

The activities of the Indra Group involve the adoption of a set of decisions that have repercussions and effects in the tax area. The Indra Group is therefore committed to complying with its tax obligations in all territories and jurisdictions in which it carries out its activity, always opting for a prudent tax policy, in accordance with the principles of transparency, mutual trust, good faith and loyalty defined and established in the Group's Tax Policy, approved by the Board of Directors.

If there are confusing, contradictory tax interpretation criteria or particularly complex tax issues, independent tax experts will be brought in and, if necessary, the applicable tax treatment will be confirmed with the competent tax authorities.

With regard to the management of tax risks, the Indra Group will adopt the necessary control mechanisms to ensure, as part of appropriate business management, compliance with tax regulations and the above principles by all its component companies. The main tax risk management criteria are as follows:

- With respect to regulatory compliance risk, the Indra Group periodically monitors and controls compliance with tax obligations (including tax payments) in all jurisdictions through a specific tool, is constantly updated on new tax developments, provides internal and external training sessions and has implemented tax controls in the different geographies that make up the scope of the ICFR. From the point of view of transparency, the Group relies on the best standards for external reporting on tax matters, including information related to operations in countries classified as tax havens or countries with a low level of cooperation (according to the Spanish, EU and OECD lists of tax havens).
- Regarding operational risks, the Indra Group prepares the necessary internal reports on the tax implications arising in the ordinary course of business, supervises the main periodic tax assessments and returns (with special emphasis on the consolidated corporate income tax return of the Spanish tax group, which is managed with the assistance of an external advisor), and controls and monitors tax inspection procedures and tax litigation. The Indra Group also seeks specialised external tax advice for complex corporate projects or those involving multiple jurisdictions. The Group analyses tax incentives for proper and efficient application in accordance with all local and state regulations in force. The tax division sits permanently on the Bid Committee and all proposals must be accompanied by the mandatory tax report, with an analysis of the tax implications, in order to minimise the tax risk.

- With regard to strategic risk, the Indra Group performs a tax impact analysis for complex international projects or those with multiple jurisdictions involved and seeks specialised and prestigious external tax advice. In addition, transactions that are not in the ordinary course of business, such as corporate restructurings, investments, opening of new businesses, etc., which are reported to the Board of Directors, include information on tax implications.
- With regard to country risk, mitigation actions are reinforced with specialised and prestigious external advice.

## 7 Organization and responsibilities

Within its Risk Control and Management System, the Indra Group has defined the appropriate organization and responsibilities for achieving its objectives. The following bodies and areas are primarily involved in the control and management of risks and their responsibilities:

### **Board of Directors**

- Ensure the implementation of the Risk Control and Management System and monitor internal information and control systems.
- Approve the risk control and management policies that define the basic management principles and guidelines for mitigating these risks.
- Approve the Global Risk Map

### **Audit and Compliance Committee (ACC)**

- Supervise the effectiveness of the Risk Control and Management System, submitting recommendations and proposals to the Board of Directors on these matters
- The Committee reports favorably to the Board of Directors for the approval of the updated Risk Map

### **Senior Management and Management Team**

- Provide sufficient resources for developing Risk Management and Control activities, in addition to defining the functions and responsibilities of these activities.
- Validate the Risk Control and Management Policy
- Validate the risk appetite recommendations and monitors breaches of established tolerance thresholds
- Support in preparing the Global Risk Map, along with the response plans defined for mitigation and tracking thereof.
- Approve the specific risk management criteria

### **Risk Coordination Unit (RCU)**

- Support the smooth running of the Risk Control and Management System, ensuring the risks are identified, assessed, quantified and monitored
- Support the definition of the risk appetite and monitors risks that exceed established tolerance levels
- Support the definition of risk monitoring criteria
- Validate the Global Risks Map and mitigation measures

### **Global Risks Unit**

- Provide reasonable assurance of the correct operation of the Risk Management and Control System by providing valid tools for risk assessment, prioritization, and management
- Raise awareness of the importance of the Risk Management System by encouraging the creation of a risk management culture at all levels.



- Develop and propose, with the support of senior management and the management team, updates to the Risk Control and Management Policy
- Develop, with the support of Senior Management and the Management team, the specific risk monitoring criteria and report on them through the recurring report of the Global Risk Unit
- Advise on the establishment of risk appetite and tolerance level. Ensure that breaches of tolerance thresholds are reported and managed
- Draw up the Global Risks Map with the support of Senior Management and the Management Team. Monitor the establishment and effectiveness of response measures defined for key risks

#### **Risk Owners**

- Monitor the risks under its responsibility in accordance with the methodology and tools defined in the Risk Control and Management System
- Participate in the design of specific risk management procedures and criteria
- Propose risk appetite, thresholds and corrective actions in the event of breaches of tolerance levels, and report on them to Senior Management and the Management team
- Assess the risks under its responsibility as part of the Global Risk Mapping exercise and implement risk response measures

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