



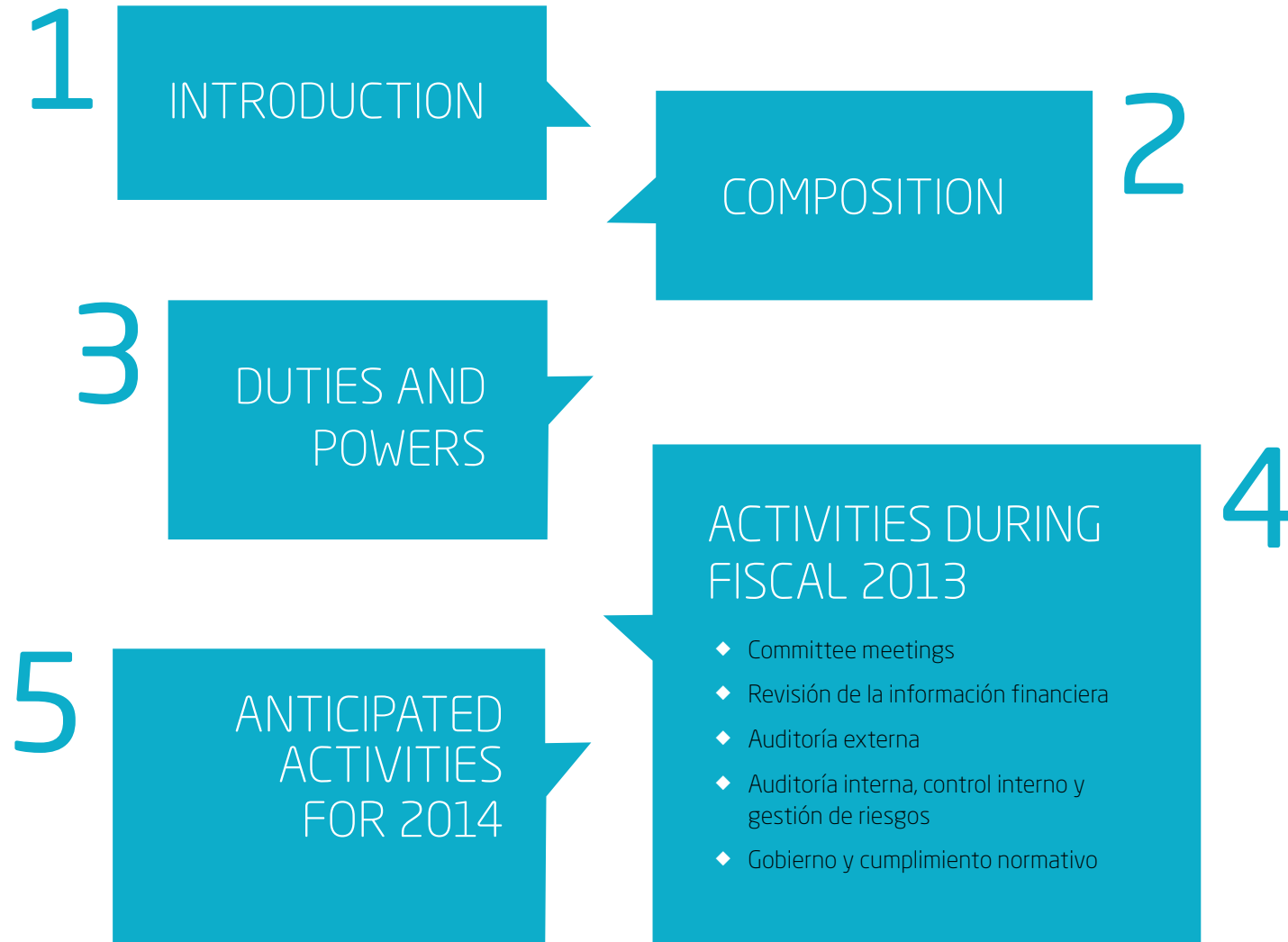
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ACTIVITIES REPORT  
AUDIT AND COMPLIANCE COMMITTEE

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**2013**

# INDEX



# 1. INTRODUCTION

## Indra has an Audit Committee since 1999

For more than twelve 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 that required by applicable law. Since its inception the Committee has vigorously undertaken the duties within its competence, 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 ("Means for Reforming the Financial System", hereinafter the "MRFS"),

which made it mandatory for all listed companies to form audit committees governed by the Company Bylaws ("Bylaws"), the Company took the means 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 at the Annual Shareholders Meeting (in general "Meetings") held 28 June, 2003.

Approval of the Unified Code of Corporate Governance (hereinafter "Unified Code") in 2006 established a series of recommendations related to: the function of audit committees; information and internal control systems; the relationship with the external auditor; and other matters which were incorporated into the Board Rules.

The Ley 12/2010 de 30 de junio, which amended the Ley de Auditoría de Cuentas ("Account Audit Statute"), the Ley del Mercado de Valores ("Spanish Stock Market Act" or "LMV") and the Ley de Sociedades Anónimas ("Spanish Corporations Act", later supplanted by the Ley de Sociedades de Capital "Spanish Stock Company Act" or "LSC") made legally binding some of the recommendations contained in the Unified Code as they relate to audit committees, which recommendations Indra had already incorporated into its internal rules, primarily in the Board Rules.

At the 2011 Meeting relevant changes were made, primarily to the Bylaws, to incorporate the duties of the Committee contained in the above mentioned statutes. Furthermore, the Board Rules were amended so that, in addition to powers granted to the Committee by the Bylaws, other matters contained in the Account Audit Statute were included.

Also, applying best practices of transparency in corporate governance, since fiscal 2003 the Annual Activities Report of the Audit and Compliance 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 request of a free copy from the Shareholder Office.

The present Activities Report of the Audit and Compliance Committee of Indra corresponds to fiscal 2013 and was approved at the Committee meeting held 24 February 2014, presented to the Board at its meeting held 27 March, 2014 and will be made available to the Shareholders upon call of the Meeting; first call scheduled for 25 June, 2014 and second call 26 June.

## 2. COMPOSITION

**5 Members**  
**3 Independent directors**  
**An independent chairman**

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 five. The current composition of the Committee is as follows:

### Chairman

**Mr. Alberto Terol**  
 (Independent Director)

### Members

**Ms. Isabel Aguilera**  
 (Independent Director)

**Mr. Juan Carlos Aparicio**  
 (Proprietary Director named upon proposal by Sociedad Estatal de Participaciones Industriales – SEPI --)

**Mr. Luis Lada**  
 (Independent Director)

**Mr. Santos Martínez-Conde**  
 (Proprietary Director named upon proposal by Corporación Financiera Alba, S.A.)

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

**Personal attendance** at meetings of the Committee was **95%**, and was **100%** for Independent Directors.

As can be seen from the list above, of the five external Directors who make up the Committee, three are Independent.

Fiscal 2013 saw the following changes in membership of the Committee:

- ◆ Substitution in March of Mr. Carlos Stilianopoulos by Mr. Gonzalo Alcubilla as the natural person representative of Participaciones y Cartera de Inversión, S.L.
- ◆ Substitution in June of the Proprietary Director Casa Grande de Cartagena, S.L. by the Proprietary Director

Mr. Santos Martínez-Conde in application of rotation criteria applied to committees in accordance with Article 17 of the Board Rules.

- ◆ Application of the above referenced rotation criteria also saw the substitution in October of Independent Director Mr. Ignacio Santillana by Independent Director Ms. Isabel Aguilera as well as the naming of Proprietary Director Mr. Juan Carlos Aparicio in order to fill the vacancy generated by the resignation of Director Participaciones y Cartera de Inversión, S.L.

A brief professional profile of each of the members follows:

### 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 a member of the Executive Committee for Deloitte, where he was head of Latin America and later of Europe, Middle East and Africa.

Currently he is Chairman and CEO of several family businesses and Independent Director at OHL, S.A. where he is head of the Audit, Compliance and Corporate Social Responsibility Committee, as well as International Senior Advisor to BNP Paribas.

### **Isabel Aguilera**

Born in Sevilla in 1960. Architect and Urban Planner, MBA from the Instituto de Empresa, Degree in Executive Management from IESE. She has spent her career in several IT companies such as Olivetti, HP/Compaq, Vodafone, and Dell, where she was Chair and Chief Executive for Spain, Portugal and Italy; NH Hotels, where she was COO; Google Inc. where she was also General Manager for Spain and Portugal; and General Electric, where she was in charge of Spain and Portugal until May, 2009. Since October, 2011 she has served as Chair of the Social Council of the Universidad de Sevilla. She is also an independent director of Banco Mare Nostrum.

### **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 was head 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., Sole Administrator at Ribafuerte, S.L. and director at Telefónica I+D, and at Gamesa Corporación Tecnológica, S.A.

### **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, Director at Banca March, S.A., of Actividades de Construcción y Servicios, S.A. and Acerinox, S.A.; and Chairman of Artá Capital SGEGR, S.A. and Deyá Capital SCR, 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 public and private companies in a wide range of industries.

## 3. DUTIES AND POWERS

### A wide range of responsibilities and competencies

The duties and powers of the Audit and Compliance Committee are found in Article 31 of the Bylaws:

- ◆ **Report to the Shareholders at a Meeting** on points raised by the Shareholders regarding matters that fall within the Committee's area of competence.
- ◆ **Supervise the functioning of the Company's internal controls, internal audit, and risk management systems**, as well as discuss with external auditors areas of significant weakness in the internal control system detected during the audit.
- ◆ **Supervise the preparation and presentation of regulated financial information.**
- ◆ **Deliver proposals to the Board of Directors** for submission to the Annual Shareholders Meeting for the appointment of the external auditors as well as the terms of their employment, the scope of the auditors' mandate and where appropriate, dismissal or non-renewal of appointment.

- ◆ **Liaise directly with the external auditors** and evaluate the development and results of their work, paying special attention to any issues that might pose a threat to auditor independence and any other issues related to the performance of the financial audit process, and maintain all other communications required by audit legislation and technical audit rules. In any event, the Committee should receive an annual written report from the external auditors confirming the auditors' independence of the Company or entities related directly or indirectly to the Company, as well as a report describing any form of services rendered to such entities by persons or organizations related to the external auditors in accordance with applicable law on audits.
- ◆ **Issue an annual report before the auditors' report** each fiscal year in which the Committee expresses an opinion regarding the independence of the external auditors. This report must also describe the rendering of additional services described in the previous paragraph.

In addition to the duties described in the Bylaws, Article 19 of the Board Rules assigns the Committee the following duties:

- ◆ Act as a channel of communication between the Board and the external auditors, from whom regular

information is received on the audit plan and the results of its implementation. The Committee also evaluates the management team's responses to the external auditor's recommendations and mediates in the event of any disagreement between the external auditor and the management team in relation to the principles and standards applied in the preparation of the financial statements. The Committee must encourage the auditor of the parent company to assume responsibility for the audits of all Group companies.

- ◆ Report to the Board, prior to the Board's adoption of the corresponding decisions, on the creation or acquisition of holding companies or companies domiciled in tax havens, and on any other transaction or operation that could obscure the Company's transparency.
- ◆ Review prospectuses for publicly traded instruments.
- ◆ Report to the Board, prior to the Board's adoption of the corresponding decisions, regarding financial information which the Company must periodically make public by virtue of its status as a listed company. The Committee will verify that the quarterly and semiannual financial statements are prepared using the same criteria as the annual financial statements.

- ◆ Establish measures to safeguard the independence of the external auditors to include:
    - » Propose that the Board file a relevant event report 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;
    - » Ensure that the Company and the auditors observe applicable law on the provision of services other than audit services, in accordance with the provisions of Article 43 of the Board Rules, and;
    - » Should the external auditors resign, examine the circumstances leading to their resignation.
  - ◆ Oversee the performance of the audit contract, aiming to ensure that the opinion on the financial statements and main content of the audit report are prepared in clear and precise terms.
  - ◆ Ensure that internal audit is both independent and effective; propose the selection, appointment, re-election and dismissal of the head of the internal audit service; propose the budget for such service; receive periodic information on its activities; and verify that senior management considers the conclusions and recommendations contained in its reports.
  - ◆ Establish and supervise measures whereby employees can confidentially report any potentially significant irregularities that they detect in the Company, especially those of a financial or accounting nature.
  - ◆ Consider suggestions from Shareholders, Directors and Senior Management of the Company on matters within its area of competence.
  - ◆ Perform all other functions assigned to it by Board Rules or by the Board of Directors.
- During fiscal 2012, the Committee carried out each and every one of the powers and duties assigned to it by the Bylaws and the Board Rules, including other matters which it considered appropriate for the exercise of its competencies and in the interests of the Company.

## 4. ACTIVITIES DURING FISCAL 2013

**9 meetings, 220 hours  
Participation of the Chairman at 8  
meetings of the Board of Directors**

### COMMITTEE MEETINGS

The Committee met nine times during fiscal 2013. This means that, as a group, the members of the Committee spent about 220 hours in preparation for and attendance at meetings in reviewing matters within its purview during fiscal 2013.

Meetings are held on one week's notice and all members receive with their notices all of the documentation and information relative to the matters to be taken up at each meeting so that there is enough time for members of the Committee to analyze them.

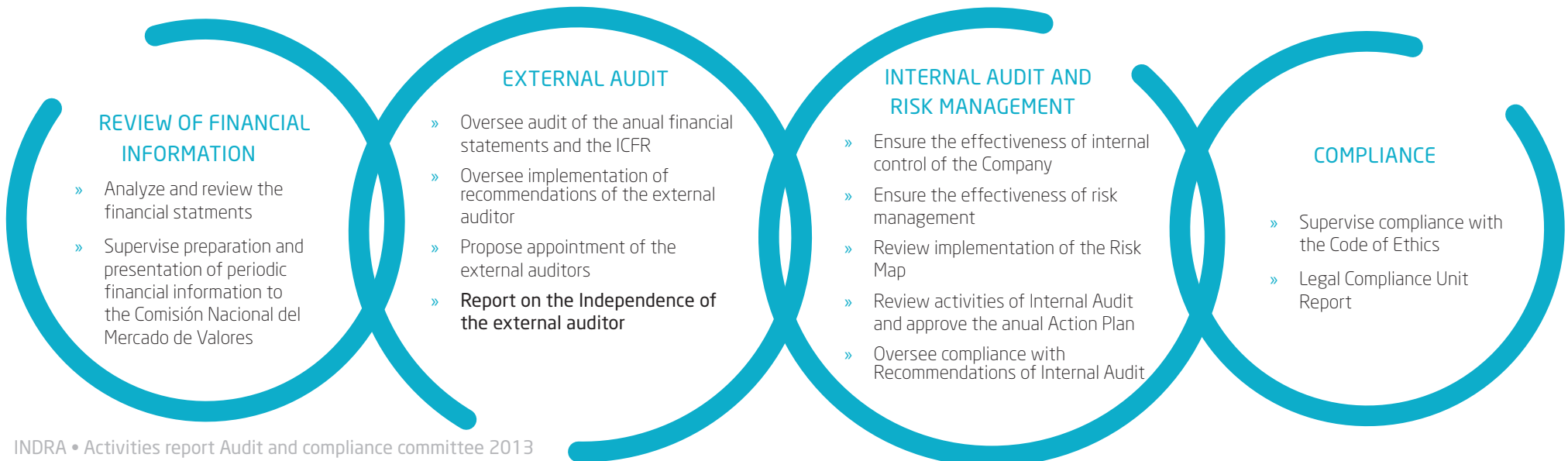
The Chairman of the Committee gave reports of the Committee's activities in eight of eleven sessions held by the full Board during fiscal 2013.

The Committee also created an Annual Report of Activities for fiscal 2011, as it does every year, which report was approved by the Committee in its meeting held 21 March, 2012. This Report was uploaded to the Company website upon call of the Meeting held 21 June, 2012. The

Chairman of the Committee attended the Meeting and was available to Shareholders in order to address any issues that they may desire to raise regarding matters within the Committee's competence.

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 2013 contained eight scheduled regular meetings along with the agenda for each meeting. The Committee held one extraordinary meeting in addition to the eight planned meetings, for a total of nine.

**The principal matters** discussed and analyzed by the Committee during fiscal 2013, and which fall within the Committee's area of responsibility, can be divided into the following **four areas**:





## REVIEW OF FINANCIAL INFORMATION

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

At its meeting held in March, 2013, the Committee reviewed the Management Report and the Individual and Consolidated Annual Financial Statements for fiscal 2012 before their preparation by the Board, giving a favourable opinion of same.

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

Before approval by the Board, the Committee reviewed the quarterly and semiannual financial statements published to the CNMV for fiscal 2013, verifying that their preparation was done using the same criteria as the annual financial statements.

In carrying out its oversight duties regarding the creation of Company and consolidated Group financial information and its integrity, and review of compliance with legal requirements, proper scope of consolidation and appropriate application of accounting standards of quarterly and semiannual financial statements to be presented by the Company CFO, the Committee examined application of appropriate accounting standards and criteria for presentation of financial information and 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 CFO at its meetings held in February, May, July and October.

## EXTERNAL AUDIT

### Proposed reappointment of KPMG to audit the annual accounts for 2013

#### 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 procedure for appointment of external auditors for the Company for fiscal 2013.

After a thorough evaluation of the qualitative and economic aspects of the external auditor's work, members of the Committee considered possible alternatives and decided the best proposal for accomplishing the above mentioned goals was that the Board re-elect KPMG as external auditor of the Company for the fiscal 2012 financial statements.

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

### Audit Fees and Report Regarding Auditors' Independence

In discharging its duty to evaluate any issues that might put the independence of the auditors at risk, the Committee conducted a study of the fees charged by the audit firm apart from those charge 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.

Then fees charged by the external auditors in fiscal 2013 for all items are as follows:

<b>Audit of Annual Financial Statements</b>	1.200 thousands of €
<b>Other Services</b>	290 thousands of €
<b>TOTAL</b>	1.490 thousands of €

The Ley 12/2010 de 30 de junio provides that the Committee issue an opinion regarding the independence of the external auditors before the audit report is drafted. In order to compile this report that the Committee prepared during its March meeting, compliance with the following criteria established by the Account Audit Statute and the Board Rules was analyzed. The Committee:

- ◆ Verified that the auditor was not involved in any circumstances, relationships or situations that might compromise its independence.
- ◆ Analyzed the fees paid 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.
- ◆ In compliance with rotation criteria for the external audit team established by applicable law, the auditor responsible for the work and all the members of the entire external audit team for fiscal 2013 were changed.

Additionally, in accordance with that contained in the Account Audit Statute, the external auditors expressly stated that they had maintained their independent status by means of a letter dated 11 March, 2013.

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

In fulfilling its role of guaranteeing compliance with the audit contract, during fiscal 2013 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 this development 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 fiscal 2012 financial statements.
- ◆ The final audit report regarding fiscal 2012 consolidated financial statements issued without qualification or reservation.
- ◆ The report on recommendations for improvement in administrative procedures and internal control stemming from the fiscal 2012 audit of the annual financial statements
- ◆ Planning and preliminary work for the fiscal 2013.
- ◆ The preliminary audit report for fiscal 2013 financial statements.

In order to make a proper evaluation of the above mentioned items, the partner at KPMG responsible for the audit met with the Committee five times at meetings held in February, March, May, September and December.

Additionally, the external audit team for Brazil appeared before the Committee during its September meeting in order to describe organisation of its work in that country, the scope of review done up to that time, and areas of focus during the fiscal year.

**Auditor's satisfactory opinion regarding the effectiveness of the information and control levels**

### **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 2013 the Committee reviewed implementation of the recommendations issued after the fiscal 2012 audit of the financial statements and confirmed that the majority had been satisfactorily resolved.

The Committee also analyzed the conclusions drawn from the reciprocal evaluation process between the KPMG team and the Indra team related to their working relationship during the last few years, which reviews have been quite helpful in strengthening internal processes in order to improve coordination between the two teams during the audit.

## INTERNAL AUDIT, INTERNAL CONTROL, AND RISK MANAGEMENT

### 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.

Consequently, during fiscal 2013 the Committee analyzed the activities performed within the framework of the Transformation Plan for Internal Audit, as regards creation of the Annual Audit Plan consistent with now objectives in the area as well as the resources necessary to reach stated goals.

The Committee approved the Annual Internal Audit Plan which focuses its analysis on review of international subsidiaries, and within this analysis pays special attention to the evaluation of risk management tools and procedures. In planning the work of Internal Audit, the current Risk Map was taken into account, which we will see

was the subject of review during the fiscal year, such that the Internal Audit Plan was adapted to updates in the Risk Map.

The Committee reviewed implementation of the Audit Plan for 2013 and found that in the aggregate the reviewed countries amounted to 75% of the Indra Group.

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

The Audit and Compliance Committee is responsible for the effectiveness of internal control within the Company relating to the process of creation and presentation of regulated financial information.

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 processes 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 quarterly financial information.
- ◆ Review and verify that in the implementation of quarterly closing of financial statements that the same criteria are used when closing the fiscal year.
- ◆ 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 external evaluation, meaning that the Company is closely observing the benchmarks included in the above referenced CNMV document.

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 which making up the process which has been uniformly implemented in all of the group. 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, resulting in a favourable opinion of Internal Audit regarding ICFR for 2012.

The head of Internal Audit and Global Risks and ICFR Plan to the Committee for the third consecutive year in Spain, second consecutive year in Colombia, Mexico and Brazil, and for the first time in Italy and Peru.

In its December meeting the Committee received a report on the preliminary conclusions of the ICFR review work for 2013.

### **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. To this end, the Committee the Global Risk Inventory during the fiscal year and received periodic reports regarding its review and evaluation process.

Once the review process was done, the CEO and head of Internal Audit and Global Risks presented the resulting Risk Map to the Committee and explained modifications made to classification of said risks as the result of the first evaluation made by a significant number of Directors. The Committee approved of the work done and agreed to present the Risk Map to the Board of Directors.

The head of Internal Audit and Global Risks presented the Risk Policy adapted to the changes approved in the Company Risk Map to the Committee for review.

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 new Company Risk Map.

#### ◆ **Procurement: Analysis of Risk of Supplier Dependence. Process of Evaluation, Oversight, and Accreditation of Suppliers.**

The Committee met with the head of Procurement and with the head of Corporate Resources, who reported to the Committee regarding the level of advancement in implementation of the new procurement model during 2013, analyzing the differences between the current model and the one that preceded it.

The Committee reviewed the supplier management model for international subsidiaries and its adaptation to the corporate model.

#### ◆ **Global Delivery Model**

The Committee met with the Director of Global Services and Production and with the General Manager of Corporate Resources who explained the

objectives and principal characteristic of the global delivery model and reported on the degree of implementation in Spain, where implementation is complete and in the international subsidiaries, where implementation is expected to be completed in 2014.

◆ **Human Resources: Resource Planning and Procedures for Identifying Key Personnel.**

The General Manager for Human Resources for the Company met with the Committee in order to report on actions taken in processes for resource and talent management and regarding control systems to assure the adequacy of those processes in order to reach maximum efficiency in resource management.

◆ **Integration of Internal Processes and Control in America and Europe**

The Committee held meetings with each of the General Managers responsible for these geographic areas in order to review specific aspects regarding the growth experienced in 2013 in those areas, changes in the number of professionals in the subsidiaries in the countries which make up those areas, and updating of the organisational chart.

Regarding matters of internal control, the Committee was informed regarding the following key matters:

- » assignment of responsibilities;
- » management of corporate areas and of operations;
- » subcontracting;
- » profit margin by country;
- » advances in implementation of ICFR and risk control procedures

◆ **Operations**

Pursuant to that contained in the 2013 Action Plan, the Committee met individually with each of the Operations Managers in order to analyze improvements made in operational control tools, methodology and procedures in the Defence, Transportation, Logistics, Energy, Telecommunications and Media, Financial Services, and Public Administration and Health markets.

The Committee received reports from each of the Operations Managers regarding the work done in updating the Risk Map and the degree of implementation of ICFR.

◆ **Risk Analysis of Liquidity and Exchange Rates in International Operations.**

The Committee met with the Treasurer in order to review achievement of objectives in this area relating to covering liquidity and exchange rate risks. Activity

in this area was focused on (i) diversification of funding sources and (ii) avoidance of concentration of bank financing on a reduced number of entities.

◆ **Transfer Pricing and Tax Management**

The Chief Administrative Officer appeared before the Committee to explain treatment given by taxing authorities for transfer pricing in various countries and the procedures and controls in place at the group level in order to reduce risk from inconsistencies in the criteria applied by the various taxing authorities. Indra avails itself of the necessary advice at the group level.

◆ **Budgeting Process. Control and Oversight Tools.**

The Committee received a report from the Comptroller and the Director of Management Control regarding the process and tools used to create the Company Budget.

The Committee analyzed the various phases of the process and in particular periodic controls and validations as well as parameterisation of information delivered to the systems which guarantee consistency in the budget.

◆ **Asset Assessment Processes (R & D, Inventory, Goodwill, and Clients)**

The CFO, Comptroller and Director of Management Control met with the Committee in order to explain the processes and criteria for valuing assets, especially intangibles, applied by the Company.

Said processes and criteria were additionally reviewed by the internal and external auditors at the behest of the Committee.

#### ◆ In House Counsel

The Committee received a report from the Company Secretary and from the General Counsel regarding developments in this area created in 2011 in order to (i) improve the efficacy of legal advice; (ii) boost control of legal labour risks by means of preventative counsel; and (iii) improve the quality of advice by means of continuous evaluation of the effectiveness of external legal services.

#### ◆ Information Systems

The Committee met with the Director of Corporate Resources for the Company who gave a report on the particulars of management of risks in information security, whose methodology is based on international management standards (ISO 27001), explaining the most significant security risks.

## GOVERNANCE AND COMPLIANCE

### Supervision of Compliance with the Code of Ethics

The Indra Group has a Code of Ethics and Professional Conduct approved by the Board of Directors and published on the Company intranet (Indraweb), which indicates ethical and responsible behaviour to be followed in pursuit of business activities and in the management of businesses, by the management team and all of the professionals at Indra and subsidiaries.

With the goal of facilitating communication between Indra and its professionals in matters related to the interpretation and application of the Code of Ethics and Professional Conduct, there is an Oversight Committee, made up of five directors, belonging to operations and corporate divisions as well as the head of the Compliance Unit.

Since October 2009 Indra has had available a complaint line known internally as “Canal Directo,” accessible through the intranet to any interested person who would like to communicate securely and confidentially, but not anonymously, any irregular, unethical or illegal conduct which in the reporters opinion is occurring in the activities of the Company. At the same time, the Canal Directo is also available for answering questions of interpretation or application of the Code of Ethics and professional Conduct.

Since the creation of the Compliance Unit in 2011, analysis of the complaints received through various means, including the Canal Directo is done by this Unit, notwithstanding the fact that its head is also a member of the Oversight Committee, which is informed of the Unit’s handling of the same.

The first task of the Compliance Unit was creation of a Compliance Program containing policies and procedures which embody the values and principles of the Code of Ethics. It is one more step in Indra’s commitment to continuous improvement in order to always meet the highest standards of integrity and professionalism.

The Compliance Unit is the body charged with resolving questions which might arise relating to the application and interpretation of the Compliance Program and which does work dealing with the prevention of fraud.

### Report of the Compliance Unit

In meeting its obligation contained in Article 19 of the Board Rules to “...set up and monitor the operation of a procedure that allows employees to notify the Board confidentially of any potential irregularities, particularly of a financial and accounting nature, that may appear within the running of the Company” the head of the Compliance Unit met with the Committee in order to report on the workings of the Canal Directo, the types of complaints received through various means, and measures taken in those cases opened as a result of said complaints.

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## 5. ANTICIPATED ACTIVITIES FOR 2014

In accordance with the Action Plan of the Audit and Compliance Committee for 2014, approved by the Committee at the beginning of the current fiscal year, the Committee has planned to meet nine times in regular session during which, in addition to reviewing matters which are of a recurring nature every year, will continue to pay special attention to matters relating to risk management.