AUDIT REPORT

2017

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 47). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Indra Sistemas, S.A.,

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Indra Sistemas, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2017, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue by reference to stage of completion	
Description	**Procedures applied in the audit**
The Group recognises revenue by applying the percentage of completion method with respect to certain contracts. This revenue recognition method affects a highly significant amount of total consolidated revenue and requires Group management to make highly significant estimates relating mainly to the expected outcome of the contract, the amount of costs to be incurred at the end of the construction work, the measurement of work completed in the period and the accounting for modifications to the initial contract, all of which impact the revenue recognised in the year. These judgements and estimates are made by the persons in charge of performing the contracts, are subsequently reviewed at the various levels of the organisation, and are submitted to controls designed to ensure the consistency and reasonableness of the criteria applied. The information relating to the revenue recognised by reference to the stage of completion is disclosed in Notes 4-w and 27 to the consolidated financial statements. Accordingly, the situation described was considered to be a key matter in our audit.	Our audit procedures included a combination of tests to verify the operating effectiveness of the controls that mitigate the risks identified in the process for recognising contract revenue by reference to the stage of completion, together with substantive procedures, such as a detailed, case-by-case analysis of the main contracts in order to evaluate the reasonableness of the estimates made by the Group in relation to total project costs and total project revenue, the remaining costs to complete the contracts, contract risks and other parameters including, among others, the accounting treatment of the contract modifications approved by the customer. In this connection, for a representative sample of the contracts, we reviewed whether the revenue recognised by the Group is consistent with the terms and conditions of those contracts, verifying the price agreed on under those contracts, the reasonableness of the cost budgets considered, and whether the future milestones will be achieved on the basis of comparable historical information and inquiries made of the Group's technical personnel. In addition, we analysed the reasonableness of the percentage of completion reached at year-end, performing a review after the reporting period to verify the absence of any unexpected variances in costs or in the stage of completion of the contract, and of any modifications to the price initially agreed upon. We also

Recognition of revenue by reference to stage of completion

Description	Procedures applied in the audit
	reviewed the consistency of the estimates made by the Group in 2016 with the actual data for the contracts in 2017. Lastly, we evaluated whether the disclosures included in Notes 4.w and 27 to the accompanying consolidated financial statements in connection with the recognition of contract revenue by reference to the stage of completion are in conformity with those required by the applicable accounting regulations.

Recovery of goodwill and other intangible assets

Description	Procedures applied in the audit
The Group has recognised goodwill amounting to EUR 803 million and intangible assets amounting to EUR 352 million, as presented in the consolidated statement of financial position as at 31 December 2017 and as indicated in Notes 8 and 9 to the consolidated financial statements. The impairment of goodwill and other intangible assets requires management to make significant judgements, including the projection of cash flows from operating activities and the determination of appropriate discount rates and long-term growth rates, and, therefore, this issue was considered to be a key matter in our audit.	Our audit procedures used to address this matter included a combination of tests to verify the operating effectiveness of the controls that mitigate the risks identified in the impairment analysis process, together with the involvement of in-house valuation specialists to assess the reasonableness of the models and key assumptions used. We assessed the reasonableness of the cash flow projections and the discount rates by comparing the assumptions with data obtained from internal and external sources, and performed a critical assessment of the key inputs of the models used. Specifically, we compared the top-line growth rates with the latest approved strategic plans and budgets and checked that they are consistent with market information. We also assessed the historical accuracy of management in its budgeting process and questioned the discount rates by measuring the cost of capital of the Group and comparable organisations, as

Recovery of goodwill and other intangible assets

Description	Procedures applied in the audit
	well as the perpetuity growth rates, among other information. In addition, we assessed whether the Group's disclosures in relation to the impairment test meet the requirements of EU-IFRSs, and whether the disclosures relating to the sensitivity of the impairment test to changes in the key assumptions adequately reflect the risks inherent to the assumptions. These issues are described in Note 8 to the accompanying consolidated financial statements.

Acquisition of Tecnocom Group carried out in the year

Description	Procedures applied in the audit
As indicated in Note 5 to the consolidated financial statements, the Group acquired the Tecnocom Group in 2017. This transaction was considered by the Group to be a business combination. As a result, the Group provisionally recognised the business combination for accounting purposes, which involved the recognition for accounting purposes of intangible assets and goodwill amounting to EUR 67 million and EUR 251 million, respectively. In this context, determining the fair value of the assets acquired and the liabilities assumed, and the goodwill arising on the acquisition date, required the application of valuation techniques, such as the use of comparable market data and the estimation of discounted future cash flows, which require significant judgements and estimates to be made with respect to the assumptions considered (for example estimated sales or the discount rate used). For the above reasons, we considered this matter to be a key matter in our audit.	Our audit procedures included, among others, obtaining the analysis performed by the Group to allocate the purchase price, and verifying the clerical accuracy of the calculations made and the reasonableness of the main assumptions considered therein (basically those relating to future cash flow forecasts, the terminal value and discount rates). For this purpose, we analysed whether the estimated future cash flows considered in the analysis conducted were consistent with the budgets approved by the Board of Directors with respect to the business acquired, and with external data and historical information on the business acquired. In addition, we evaluated the reasonableness of the key assumptions considered (such as revenue growth, assumptions regarding gross margins, cost inflation and perpetuity growth rates) using public data relating to the industry to which the business acquired belongs, and also

Acquisition of Tecnocom Group carried out in the year	
Description	**Procedures applied in the audit**
	performed a sensitivity analysis of those key assumptions. We involved our in-house valuation specialists in order to evaluate, mainly, the methodology employed by the Group in the analysis conducted, the discount rates considered and the terminal value, expressed in perpetuity growth terms, of the projected future cash flows. Lastly, we evaluated whether the disclosures included in Note 5 to the accompanying consolidated financial statements in connection with this matter are in conformity with those required by the applicable accounting regulations.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 2017, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the information contained in the consolidated directors' report is defined in the audit regulations in force, which establish two distinct levels thereof:

a) A specific level that applies to the consolidated non-financial information statement, as well as to certain information included in the Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the consolidated directors' report, or, as the case may be, that the consolidated directors' report contains the corresponding reference to the separate report on non-financial information as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the consolidated directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the consolidated financial statements, based on the knowledge of the Group obtained in the audit of those consolidated financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of this section of the consolidated directors' report are

in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have checked that the information described in section a) above is provided in the consolidated directors' report and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors and of the Audit and Compliance Committee of the Parent for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with EU-IFRSs and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit and compliance committee is responsible for overseeing the process involved in the preparation and presentation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix 1 to this auditor's report. This description, which is on pages 8 and 9, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit and Compliance Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit and compliance committee dated 20 March 2018.

Engagement Period

The Annual General Meeting held on 30 June 2016 appointed us as auditors of the Group for a period of three years from the year ended 31 December 2015.

DELOITTE, S.L.
Registered in ROAC under no. S0692

F. Javier Peris Álvarez

Registered in ROAC under no. 13355
20 March 2018

Appendix 1 to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's directors.
- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent's audit and compliance committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's audit and compliance committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the Parent's audit and compliance committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.