MANAGEMENT REPORT

2017

ÍNDICE

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

1. KEY HIGHLIGHTS OF YEAR 2017

Order intake grow by + 18% in local currency and as reported in 2017 due to the incorporation of Tecnocom, as well as the organic growth in Indra's IT business.

Sales in 2017 reached EUR 3,011M and grew +11% in local currency and in reported terms.

The EBITDA (Operating Result plus Amortizations) in 2017 reaches EUR 266 million compared to EUR 229 million in 2016, which represents an expansion of the EBITDA margin (EBITDA over sales) in the year to 8.8% vs 8.5 % in 2016.

The EBIT (Operating Result) stands at EUR 196 million in 2017 vs. EUR 162 million in 2016. The EBIT margin (Operating Result on sales) stands at 6.5% in 2017 vs. 6.0% in 2016, slightly impacted by the incorporation of Tecnocom and its integration costs. Excluding Tecnocom, the EBIT margin (Operating Result on sales) would have been 7.2% in 2017.

It is worth mentioning the strong cash flow generation during the year (EUR +186 million), mainly due to the solid operational improvement.

The Net Financial Debt rises to EUR 588 million in December 2017 (vs. EUR 523 million in December 2016).

The leverage ratio (Net Financial Debt over Operating Result plus Amortizations) decreases to 2.2x (vs. 2.3x December 2016).

Profit (loss) attributable to the Parent result in 2017 stands at EUR 127 million, compared to EUR 70 million in 2016.

MAIN AGGREGATES	2017* (MEUR)	2016 (MEUR)	CHANGES (%) REP./LOCAL CUR.
Order intake	3,248	2,744	18.3 / 18.3
Revenues	3,011	2.709	11.1 / 11.2
Backlog	3,612	3,129	15.4
Gross operating profit/loss (EBITDA)	266	229	16.1
EBITDA Margin	8.8%	8.5%	0.3 pp
EBITDA Margin ex restructuring costs Tecnocom	9.4%	8.5%	0.9 pp
Operating result (EBIT)	196	162	21.1
EBIT Margin	6.5%	6.0%	0.5 pp
EBIT Margin ex restructuring costs Tecnocom	7.0%	6.0%	1.0 pp
Profit (loss) attributable to the Parent	127	70	81.5
Net debt	588	523	12.5
Free Cash Flow	186	184	1.6
Basic EPS (EUR)	0.738	0.427	72.8

*Note: The data shown includes the Tecnocom figures that begin to consolidate from April 18, 2017

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

2. ANALYSIS OF CONSOLIDATED FINANCIAL STATEMENTS

PROFIT AND LOSS ACCOUNT

CONSOLIDATED INCOME STATEMENT (MEUR)	2017	2016
Ordinary income	3,011	2,709
In-house work on non-current assets	38	23
Other operating income	20	40
Changes in inventories of finished and work in progress	9	(13)
Consumption and other supplies	-803	(668)
Staff costs	(1,486)	(1,342)
Other Operating Costs	(522)	(519)
Other income/loss from non-current assets	(1)	(2)
Amortization	(71)	(68)
Operating Result	196	162
Financial income	7	6
Financial expenses	(43)	(46)
Other Financial Results	3	(0)
Financial result	(32)	(39)

CONSOLIDATED INCOME STATEMENT (MEUR)	2017	2016
Result of Companies Accounted for Using the Equity Method	(0)	2
Pre-tax income	163	124
Income tax	(34)	(54)
Profit or loss for the financial year	129	70
Profit/Loss Attributed to the Parent	127	70
Profit or loss attributable to non-controlling interest	2	0
Basic earnings per share (in EUR)	0.7378	0.427
Diluted earnings per share (in EUR)	0.6721	0.413

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

- Sales in fiscal year 2017 were EUR 3,011 million, which represents an increase of +11% in local currency as well as in reported terms. The T & D segment (which includes the Transport & Traffic and Defense & Security segments) reports negative growth (-3% in local currency and in reported currency), while IT segments have grown +23% in local currency and in reported terms, mainly as a result of the impact of the consolidation of Tecnocom (whose activity focuses exclusively on the IT segment), of the growth experienced by the Elections business and, to a lesser extent, of the contribution of the Energy & Industry segment.

- The work carried out by the Group for its non-current assets amounted to EUR 38 thousand vs EUR 23 thousand in 2016.

- Main operating expenses increase by +10% in 2017 in reported terms, standing at EUR 2,803 million vs. EUR 2,543 million in 2016. Excluding Tecnocom, OPEX would have remained practically flat:

    - Personnel Expenses increase +11% in 2017 to EUR 1,486 million (vs. EUR 1,342 million in 2016) as a result, among other aspects, of Tecnocom's consolidation.
    - Consumption and other supplies (EUR 803 million vs. EUR 668 million in 2016, +20% increase), as well as Other Operating Expenses (EUR 522 million vs. EUR 519 million in 2016, +1% increase) rise due to the incorporation of Tecnocom and the acceleration of sales.

- EBITDA (Operating Result plus Amortizations) stands at EUR 266 million in 2017 compared to EUR 229 million in 2016, which represents an EBITDA margin (EBITDA over sales) for the year of 8.8% vs 8.5% in 2016.

- Amortization amounts to EUR 71 million in 2017 compared to EUR 68 million in 2016.

- The EBIT margin stands at 6.5% in 2017 vs. 6.0% in 2016, slightly impacted by the incorporation of Tecnocom and its integration costs:

    - In 2017, the EBIT Margin (Operating Result on sales) of T & D (Transport & Traffic and Defense & Security) segment decreases to 11.6% vs. 13.0% in 2016.
    - In 2017, the EBIT margin (Operating Result on sales) of the IT (Information Technology) segment stands at 3.2% vs. 0.1% in 2016.

- Despite the increase in average borrowings for the period, the Financial Result improves to EUR - 32 million in 2017 (vs. EUR -39 million in 2016) due to the decrease in the average cost of financing, as well as the positive effect associated to certain exchange rate hedging and other financial results.

- The corporate tax expense amounts to EUR 34 million, which corresponds to a 21% tax rate, down from the 2016 rate, and largely due to the improved use of tax losses in Brazil.

- The Profit (loss) attributable to the Parent for the year grows +82% and reaches EUR 127 million in 2017 compared to EUR 70 million in 2016. Net profit per basic share grows +73% in the same period.

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

STATEMENT OF FINANCIAL POSITION AND CASH FLOW STATEMENT

STATEMENT OF CONSOLIDATED CASH FLOWS (MEUR)	2017	2016
Profit or loss for the financial year	129,074	70,379
Corporate taxes (Note 36)	33,757	53,503
Pre-tax income	162,831	123,882
Adjustments for:		
• Grants (Note 21)	(11,454)	(24,367)
• Provisions for trade and other receivables (note 16)	18,758	11,603
• Change in operating provisions (notes 23 and 26)	(22,449)	(6,080)
• Gains or losses on non-current assets (note 32)	1,105	1,507
Other	8,787	14,457
	(5,253)	(2,880)
- Depreciation and amortization charge (notes 7 and 9)	70,625	67,836
- Results of associates (note 11)	482	(1,676)
- Financial loss (notes 10 and 33)	32,316	39,333
+ Dividends received	3,246	1,840
Profit (Loss) from operations before changes in working capital	264,247	228,335
Changes in trade and other receivables	(67,448)	54,310
Changes in inventories	(20,655)	1,371
Changes in trade and other payables	123,873	141

STATEMENT OF CONSOLIDATED CASH FLOWS (MEUR)	2017	2016
Cash flows from operating activities	35,770	55,822
Income tax paid	(52,529)	(46,927)
Net cash flows from operating activities	247,488	237,230
Payments due to purchases of non-current assets:		
Property, plant and equipment (note 7)	(13,863)	(9,042)
Intangible assets (note 8)	(38,266)	(29,778)
Financial assets (notes 5 and 11)	(202,664)	(7,099)
Proceeds from disposals of non-current assets:		
Financial assets	10,369	3,190
Interest received	6,982	5,489
Other cash flows from investing activities	12,090	10,881
Cash flows used in investing activities	(225,352)	(26,359)
Shareholders contributions (note 5)	(5,173)	-
Changes in treasury shares (note 18)	(6,087)	(339)
Dividends paid by companies to non-controlling shareholders (note 18)	(137)	(867)
Increase / (Decrease) in bank borrowings of other Group companies (note 20)	(52,262)	75,148
Proceeds from issue of bank borrowings of the Parent (note 20)	171,900	100,723

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

ESTADO DE SITUACIÓN FINANCIERA Y ESTADO DE FLUJOS DE TESORERÍA

STATEMENT OF CONSOLIDATED CASH FLOWS (MEUR)	2017	2016
Repayment of bank borrowings of the Parent (note 20)	(63,844)	(36,843)
Interest paid (note 10)	(27,947)	(31,200)
Changes in other financial assets (note 15)	367	(2,445)
Net cash flows used in financing activities	16,817	104,177
Net increase / (decrease) in cash and cash equivalents	38,953	315,048
Beginning balance of cash and cash equivalents	673,901	341,554
Effect of exchange rate changes on cash and cash equivalents	(13,738)	17,299
Net increase / (decrease) in cash and cash equivalents	38,953	315,048
Ending balance of cash and cash equivalents (note 17)	699,116	673,901

STATEMENT OF CONSOLIDATED CASH FLOWS (MEUR)	2017	2016
Profit (Loss) from operations before changes in working capital	264	228
Cash flows from operating activities	36	56
Income tax paid	(53)	(47)
Payments due to purchases of non-current assets (excluding financial assets)	(52)	(39)
Interest received	7	5
Other cash flows from investing activities	12	11
Interest paid	(28)	(31)
Free Cash Flow (FCL)	186	184

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

- In 2017, Free Cash Flow stands at EUR 186 million vs EUR 184 million in 2016, mainly as a result of the improved profitability of operations.

- The operating profit before the change in working capital for 2017 was EUR 264 million, up from the EUR 228 million figure in 2016 as a result of operational improvement.

- Cash flows from operating activities decreased to EUR 36 million vs. EUR 56 million in 2016, because the variation in commercial debtors and others had a greater positive contribution in 2016.

- The Corporate Income Tax paid was EUR -53 million in 2017 vs -47 million EUR in 2016, largely resulting from higher corporate profits vs. 2016.

- Payments for acquisition of non-current assets (excluding financial assets) amounted to EUR -52 million vs. EUR 39 million in 2016, mainly arising from greater investments in the Air Traffic Segment.

3. HUMAN RESOURCES

At the end of 2017, the total final staff comprises 40,020 professionals, which represents an increase of +17% compared to 2016, mainly due to the integration of Tecnocom and Paradigma. Excluding the impact of this integration, the final staff figure would have been down by -3% relative to 2016:

- In Spain, the final staff figure has expanded by +32%, mainly due to the integration of Tecnocom employees. Excluding this impact, the workforce in Spain would have grown +3%.

- In America, including the impact of the Tecnocom's integration, the final staff figure has decreased by -6%, which can be largely attributed to the drop in labor-intensive projects in Latin American subsidiaries (mainly Brazil, due to a specific contract for 2016 Elections). Excluding this integration, staff in America would have fallen by -13%.

- In Europe, the staff has increased by +11% compared to 2016 as a result of the integration of Tecnocom employees. Excluding the impact of said acquisition, however, the final staff figure would have been down by -5%.

- In Asia, the Middle East and Africa, the staff has grown +11% compared to 2016. Tecnocom has not had an impact on this geography.

  At the end of 2017, the average staff grew +12% vs 2016, mainly due to the integration of Tecnocom.

FINAL STAFF	2017*	%	2016	%	CHANGE (% vs 2016)
Spain	25,081	63	18,951	55	32
America	11,326	28	12,091	35	(6)
Europe	1,811	5	1,632	5	11
Asia, Middle East & Africa	1,802	5	1,620	5	11
TOTAL	40,020	100	34,620	100	17

*Note: The data shown includes the Tecnocom and Paradigma staff

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

4. ANALYSIS BY VERTICAL MARKETS

TRANSPORT AND DEFENSE

T&D	2017 (MEUR)	2016 (MEUR)	CHANGE %	
			REPORTED	LOCAL CURRENCY
Order intake	1,248	1,241	1	1
Sales	1,183	1,224	(3)	(3)
Defense & Security	596	599	(1)	(1)
Transport & Traffic	587	625	(6)	(6)
Book-to-bill	1.05	1.01	4	
Backlog/ Sales LTM	2.00	1.88	6	

In 2017, sales in the T & D segment decreased by -3% both in local currency and reported terms due to the drop in the Transport & Traffic business (-6% in local and reported currency) and the slight decrease in Defense & Security (-1% in local currency and reported).

Order intake in 2017 grow +1% in local currency and in reported terms. The book-to-bill ratio stands at 1.05x vs. 1.01x in 2016.

For the last 12 months, this ratio stands at 2.00x vs. 1.88x in 2016.

Defense & Security

- In 2017, Defense & Security sales fell slightly by -1% in local currency, affected by the minor activity drop in the Eurofighter project relative to 2016. Excluding this effect, sales would have exhibited a slight growth in the Defense & Security vertical segment due to the positive dynamics mainly in the Systems and Airborne Vehicles segment.
- By geographical area, 2017 sales in Spain (approximately half of sales in this segments) continue to grow at double-digit rates thanks to the implementation of multi-year contracts with the Ministry of Defense (electronic systems associated with the integrated mast of future F110 frigates, electronic systems of the future 8x8 armored vehicles, and the NH90 helicopter Defense & Security simulator). On the contrary, both Europe (decrease in the activity of the Eurofighter program in the region) and Latam (one-off project in Ecuador in 2016) have experienced a slowdown.
- Order intake in 2017 rose by +6%, mainly as a result of the awarding of new Eurofighter orders, revenues of which will only materialize from 2020 onwards.

Transport & Traffic

- Transport & Traffic has reported a sales decline of -6% in local currency and in reported terms. By activity segment, 2017 sales in the Air Traffic business (c.50% of total vertical sales) registered a growth of +3%, supported by greater activity from European programs. The Transport segment contracted decreases during the year, mainly due to the drop in international business, with activity reductions in relevant projects, delays in the award of some contracts, as well as the strategic review of the business carried out throughout 2017 and already completed.
- By geographical area, for the whole of 2017, Spain and Europe exhibited the best relative performance while Asia, the Middle East, Africa and America suffered due to the business slowdown in the area.
- Order intake in 2017 fell by -3% in local currency and -4% in reported terms, significantly improving the rate of decline reported throughout the year, and which arises from solid order intake recorded in the last part of the year in the Transport segment, mainly in Spain and America.

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

INFORMATION TECHNOLOGIES

TI	2017* (MEUR)	2016 (MEUR)	CHANGE %	
			REPORTED	LOCAL CURRENCY
Order intake	2,000	1,504	33	33
Sales	1,828	1,485	23	23
- Energy & Industry	481	400	20	21
- Financial Services	605	476	27	27
- Telecom & Media	236	212	12	11
- Govern. & Healthcare	506	398	27	27
Book-to-bill	1.09	1.01	8	
Backlog/ Sales LTM	0,64	0,55	15	

*Note: The data shown includes the Tecnocom figures that begin to consolidate from April 18, 2017

In 2017, IT segment sales grew +23% in local currency and in reported terms, mainly as a result of the impact of the consolidation of Tecnocom (whose activity is concentrated solely in the IT segment), of the growth experienced by the Elections business and, to a lesser extent, the contribution of the Energy & Industry vertical.

Excluding the impact of the acquisition of Tecnocom, sales in 2017 would have grown at levels close to half a digit in local currency and in reported terms. The vertical that registered the best performance wasPublic Administrations & Health (due to the Elections business), whilst we should also highlight the positive growth of Energy & Industry, followed by Financial Services (flat performance). The only vertical that reports business declines is Telecom & Media due to the cancellation of a relevant BPO contract.

The contribution of digital services (Minsait) was EUR 314 million (17% of IT sales), which represents a +0.3% growth compared to 2016 (hardly comparable as 2016 saw the contribution of biometrics and cybersecurity solutions of a relevant contract in Latin America).

IT Order intake grew +33% in local and reported currency, resulting in a book-to-bill ratio of 1.09x vs. 1.01x in 2016. Excluding the impact of Tecnocom, order intake would have grown by approximately +20% in local and reported currency in 2017, driven mainly by Public Administrations (due to the Elections business), Health, and Energy & Industry.

The book-to-bill ratio over the last 12 months improves to 0.64x vs. 0.55x in 2016..

Energy & Industry

- The 2017 sales of Energy & Industry have grown +21% in local currency (+20% in reported terms) as a result of the impact of the acquisition of Tecnocom and the organic growth of the vertical.
- The Energy segment (over two thirds of sales in the vertical) recorded a better relative performance in 2017 compared to the Industry segment (approx. 30% of sales).
- Worthy of mention are the activity levels recorded in the international market (America, Europe and Asia, the Middle East and Africa), as the decision-making processes of certain relevant customers have been delocalized from Spain to international markets.
- In 2017, order intake rose +22% in local and reported currency vs. 2016 Excluding Tecnocom, order intake would have grown +9% in 2017 in local currency and in reported terms, highlighting the positive dynamics of the Oil & Gas sector, mainly in the American region.

Financial Services

- Financial Services registered in 2017 a sales growth of + 27% in local and reported currency, largely due to the acquisition of Tecnocom. Its main lines of business are reported in the banking sector (approx. 90% on vertical sales) vs insurance sector (approx. 10% of sales).
- In 2017, the banking sector shows a better relative performance with respect to the insurance sector, both due to the incorporation of Tecnocom, and the repositioning process of our digital offer among the main banking clients.
- Excluding the impact of the acquisition of Tecnocom, sales would have reported flat growth in

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

2017, both in local currency and in reported terms. The growth of the banking sector (favorable evolution in Digital and Outsourcing) has offset dips in the insurance sector.

- In 2017, order intake grow +23% in local and reported currency vs. 2016, mainly due to the integration of Tecnocom.

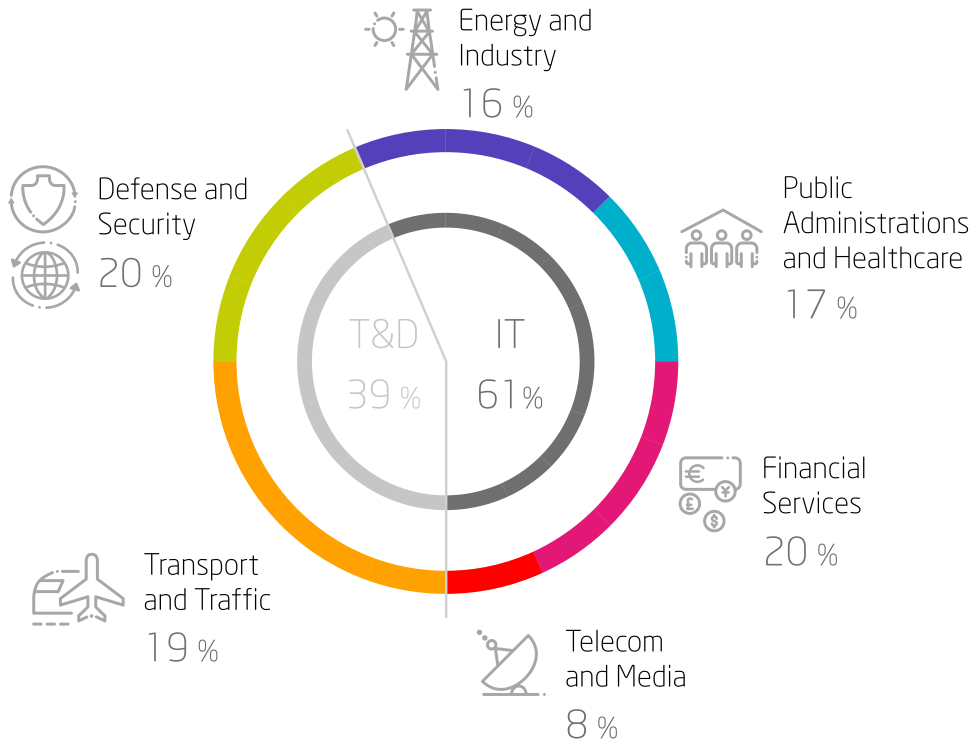
Telecom & Media

- Telecom & Media has reported a +11% sales growth in local currency (+12% in reported terms), mainly attributable to the acquisition of Tecnocom.
- Excluding the impact of this acquisition, sales would have declined, mainly due to the weaker performance of Spanish sales following the cancellation of a relevant BPO contract, which affects the first half of 2017.
- In 2017, the Telecom segment (approx. 90% of sales) registered a better relative performance with respect to the Media segment (approx. 10% of sales). Excluding Tecnocom, the behavior would have been similar because Tecnocom has a limited presence in the Media segment.
- Order intake rise +33% in local currency and in reported terms in 2017. Excluding Tecnocom, order intake would have been up +16% in local currency (+17% reported) vs. 2016, accelerating in the last part of the year in the American region.

Public Administrations & Health

- In 2017, the Public Administrations & Health line of business has recorded a sales growth of +27%, both in local currency and in reported terms, as a consequence, among other aspects, of the Elections business and the impact of the acquisition of Tecnocom.
- Excluding the acquisition of Tecnocom, sales would have grown above +20% in 2017.
- By geographical area, we should highlight the favorable evolution of Asia, the Middle East and Africa for the Elections business in 2017. In contrast, in Spain, the environment remains highly competitive and challenging price dynamics persist.
- In 2017, order intake rose +58% in local currency and +57% in reported terms. If we were to exclude both Tecnocom's contribution and the Election business, order intake would have exhibited similar rates of double-digit growth

We show below the weights of each of the verticals on total 2017 sales:



MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

5. 5) SALES BY GEOGRAPHICAL AREA

SALES BY GEOGRAPHICAL AREA	2017*		2016		CHANGE %	
	(MEUR)	%	(MEUR)	%	REPORTED	LOCAL CURRENCY
Spain	1,387	46	1,164	43	19	19
America	656	22	653	24	0	0
Europe	492	16	524	19	(6)	(6)
Asia, Middle East & Africa	477	16	368	14	30	31
TOTAL	3,011	100	2,709	100	11	11

*Note: The data shown includes the Tecnocom figures that begin to consolidate from April 18, 2017

(*) The sales figure reported in the "Europe" geographical area of the report and of the present management report differs from the sales figure of the annual CNMV report for the "European Union" geographical area, since the latter only includes the countries of the Euro zone.

By geographical area, we can highlight the sales growth in 2017 in Asia, the Middle East & Africa (+31% in local currency, 16% of total sales) thanks to the positive contribution of the Elections business, as well as those reported in Spain (+19% growth, 46% of total sales), mainly due to the contribution of Tecnocom and America (flat growth, 22% of sales), but with considerable growth in the last part of the year. On the other hand, Europe is the only region showing negative growth rates in 2017 (-6% in local currency, 16% of sales), as a result of reduced activity in the Eurofighter project in the last quarter of the year.

Excluding the impact derived from the acquisition of Tecnocom, whose activity is concentrated in the regions of Spain and Latin America (and only in the IT segment), sales in 2017 would have increased +1% in Spain, while in America they would have fallen -5% in local and reported currency.

Spain

Sales increased +19% in 2017, with growth in both the T & D (approx. 30% of sales in Spain) and IT business (approx. 70% of sales). Excluding Tecnocom's sales, which correspond entirely to the IT segment, revenues would have grown by +1% in 2017 (with growth in the T & D segment and flat growth in the IT segment).

In the T&D sector (c.30% of sales in Spain), Defense & Security continues to be the vertical that recorded the best performance in 2017 (double-digit growth), as the specific multi-year contracts of the Ministry of Defense continue to be executed (electronic systems associated with the integrated mast of the future F110 frigates, electronic systems for the future 8x8 armored vehicles and flight simulator of the NH90 helicopter, mainly).

Within the IT business (c.70% of sales in Spain), the growth of Financial Services (the Financial Services division in Tecnocom represents approximately half of its total sales) and Energy & Industry stands out in 2017, due to the contribution of Tecnocom in both verticals. Excluding the impact of Tecnocom, sales would have declined, with Financial Services and Energy & Industry (slight decreases) registering better performance relative to Public Administrations & Health (price pressure) and Telecom & Media (cancellation of a significant BPO contract).

Order intake in 2017 rises +3% in local currency and reported. Excluding Tecnocom, order intake would have grown slightly, highlighting the strong order intake recorded in the last part of the year in the Transport sector.

America

Sales in America have remained flat in 2017, both in local currency and in reported terms. Excluding Tecnocom, sales would have fallen by -5% in local currency and in reported currency, mainly due to the decrease in sales in the T&D sector (both in the Defense & Security vertical as well as the Transport & Traffic sector). In the IT sector there were slight declines.

Activity in America is concentrated in the IT sector (c.80% of sales in the region), with good relative performance in 2017 of sales (ex Tecnocom) of Energy & Industry followed by Financial Services. The greatest decrease in activity occurred in the Public Administration & Health vertical, in which the company's repositioning continues towards a greater proportion of private vs. public clientele.

The decrease in sales in 2017 has been higher in the T&D sector due to the difficult comparison with 2016 in the Defense & Security vertical (project in Ecuador), as well as the weaker activity in the Transportation division.

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

By countries, and excluding the impact of Tecnocom, sales rose in 2017 in Argentina (Elections business) and Mexico (good performance of the Financial Services vertical), while they declined in Brazil (repositioning of private vs. public clientele), Dominican Republic (due to the Elections project of the previous year) and Ecuador (Defense & Security project in 2016).

Order intake in 2017 rose +23% in local currency and 24% in reported terms, driven mainly by the IT sector, in which the growth of the Energy & Industry vertical stood out, followed by Financial Services. Excluding Tecnocom, order intake would have grown +19% in local currency (+20% in reported).

Europe

Sales in 2017 decreased by -6% in local currency and in reported terms, mainly due to decreases in the T&D segment (the IT segment shows slight growth). Tecnocom's contribution did not have a significant impact on sales in the region.

The T&D segment (c.75% of sales in the region) sales were affected in 2017 by the decline in activity of the Eurofighter program, mainly in the last quarter of the year. The positive dynamics in the Air Traffic business in European programs have not compensated the decreases recorded in Defense & Security (the vertical with the greatest weight on sales in the region).

The IT segment (c.25% of sales in the region) has presented positive growth rates in 2017. By verticals, the growth in Financial Services and Energy & Industry stand out, which is due to the positive activity in Italy, country that represents most of the IT activity in Europe.

Order intake rises by +53% in local currency and in reported terms, mainly due to the renewal of multi-year contracts for the Eurofighter (Defense & Security vertical) and digitalization contracts awarded in Italy for public administration.

Asia, Middle East & Africa

2017 sales in Asia, the Middle East & Africa show a +31% growth in local currency (+30% in reported). The acquisition of Tecnocom has no impact on sales because it has no presence in the region.

The 2017 revenues of the T&D segment (representing approximately two thirds of sales in the region, with a greater proportion of the Transport & Traffic vertical than the Defense & Security vertical) have fallen slightly due to lower activity in the Transport segment, a trend which has reversed in the latter part of the year. In contrast, the IT segment has shown strong growth in 2017 supported by the Elections business.

Order intake in 2017 has risen +11% in local currency and reported. The strong order intake associated with the Elections business has compensated the double-digit fall of the T&D segment.

6. RESEARCH AND DEVELOPMENT ACTIVITY

The Group has continued to dedicate significant efforts both in terms of human and financial resources as well as developing services and solutions positioning the Group as a technological leader in various sectors and markets in which it operates. The amount dedicated to research, development and technological innovation activity was EUR 201,683 million, equivalent to 7% of the Group's total sales.

7. AVERAGE PAYMENT PERIOD TO SUPPLIERS

Final provision to of Law 31/2014, amending the Capital Companies Law for the improvement of corporate governance, and amending additional provision three of Law 15/2010, which establishes measures to combat defaulting in commercial operations, requiring that all mercantile companies expressly include in their annual accounts the average payment terms to suppliers. Likewise, the ICAC is enabled to set out the rules and methodology of the calculation method.

This resolution is mandatory for all Spanish mercantile companies that prepare Consolidated Annual Accounts, but only with respect to companies located in Spain, which are consolidated by the global or proportional integration method.

Based on this, through the resolution of January 29, 2016, the ICAC sets out the methodology for calculating the average payment to suppliers for the year 2015 and subsequent years.

Calculation of the average payment terms to suppliers is determined by applying the following formula, and is in accordance with the ICAC resolution of January 29, 2016:

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

$$\text{Average period of payments to suppliers} = \frac{\text{Ratio of paid operations * amount of payments made + ratio of pending operations + total amount pending payments}}{\text{total amount of payments made + total amount outstanding payments}}$$

Information on the Spanish companies for 2017 and 2016 are as follows:

	2017	2016
	DAYS	DAYS
Average Period - Payments to Suppliers	64	55
Ratio of Paid Transactions	66	56
Ratio of transactions pending payment	52	52

	AMOUNT THOUSANDS OF EUR	AMOUNT THOUSANDS OF EUR
Total payments made	1,013,342	693,106
Total payments pending	187,242	168,775

8. MAIN RISKS ASSOCIATED WITH THE ACTIVITY

The risks associated with the Group, its activity, the sector and environment it operates in are listed below and could adversely affect the Group's business, results or financial, economic or equity situation.

These risks are not the only ones the Group could face in the future. It could be the case that future risks, currently unknown or not considered relevant, could have an effect on the business, results or the financial, economic or equity situation of the Group, or on the price of its shares or other securities issued by the Group. Likewise, it should be taken into account that such risks could have an adverse effect on the share price of the Parent Company or on other securities issued by the Group, which could lead to a partial or total loss of the investment due to various factors, including the risks to which the Group is subject.

a) Financial risk

The Group is exposed to various financial risks, credit liquidity or market risks (which include exchange rate and interest rate risks) as well as other specific risks arising from its financing structure. The Group maintains a risk management model in order to anticipate and minimize any adverse effects that the materialization of these risks could have on the Group's financial profitability.

However, the management model might not work properly or may not be enough. In addition, the Group is subject to external risks that are beyond its internal control and that may adversely affect the Group's business, results or financial, economic or equity situation.

Exchange rates risk

The Group's international presence, with projects in over 140 countries in diverse geographical locations including Spain, America, Europe, Asia, the Middle East and Africa, means that the Group is exposed to exchange rate risk of the currencies from the countries in which it operates. As of December 31, 2017, approximately 47% of the Group's total sales came from international markets (46% in 2016).

The main transactions conducted by the Group in non-EUR currencies during 2017 and 2016 are detailed below:

	IN THOUSANDS OF EUR	
	2017	2016
Sales	1,089,761	1,084,054
Purchases	765,661	749,736

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

In the recent past, different macroeconomic and/or geopolitical events have produced abrupt changes in exchange rates against the euro of the different functional currencies with which the Group operates. The Group's activity is exposed mainly to the following risks:

Risk of translation of accounting items

The Group's main foreign subsidiaries account for all the items in its profit and loss accounts and balance sheets in the local currency of each country (local functional currency). In the process of preparing the consolidated accounts of the Group, each of these items is converted into euros at the relevant rate in each case (average or spot change as appropriate), and the consolidation adjustments that may be necessary are also made.

As of December 31, 2017, the Group does not use financial instruments to hedge the change in the exchange rates against the euro of any item in the income statement or in the balance sheets of these foreign subsidiaries, leaving the Group exposed to the effect of translation of these accounting items at the time of consolidation.

The following table shows the sensitivity as of December 31, 2017 and December 31, 2016 of the Group's equity, expressed in millions of euros, to variations of +/- 5% in the exchange rate against the euro of the main functional currencies of the Group's foreign subsidiaries.

CHANGE IN EQUITY 2017

+5%	IN THOUSANDS OF EUR
Saudi Riyal	945
Mexican Peso	1,162
Brazilian Real	1,831

VARIACIÓN DE RESULTADOS 2017

+5%	IN THOUSANDS OF EUR
Saudi Riyal	(41)
Mexican Peso	17
Brazilian Real	(618)

De otro lado, el siguiente cuadro recoge la sensibilidad a 31 de diciembre de 2017 y a 31 de diciembre de 2016 de los resultados consolidados del Grupo, expresada en millones de euros, a variaciones del +/-5% en el tipo de cambio frente al euro de las principales monedas funcionales de las filiales extranjeras del Grupo.

CHANGE IN EQUITY 2016

+5%	IN THOUSANDS OF EUR
Saudi Riyal	932
Mexican Peso	821
Brazilian Real	1,881

VARIACIÓN DE RESULTADOS 2016

+5%	IN THOUSANDS OF EUR
Saudi Riyal	179
Mexican Peso	(272)
Brazilian Real	(1,268)

At December 31, 2017, the Group's consolidated equity and consolidated results are more sensitive to changes in the exchange rates against the Saudi Riyal, the Mexican Peso and the Brazilian Real. However, in the future, the result or the net worth of the Group may be more sensitive to variations in the exchange rate against the euro of functional currencies of the Group's foreign subsidiaries other than those included in the previous tables, based on of the relative weight of the business of the Group's foreign subsidiaries.

Risk of income and expenses in currencies other than functional currencies

Likewise, the Group is exposed to an exchange rate risk in those projects in which income and expenses are in currencies different from the group's functional currency.

To mitigate this risk, the Group maintains a policy of subscription of exchange rate hedge contracts with financial institutions that replicate the expected patterns of collection and payments in each project from December 31, 2017, although in some cases these hedges may be ineffective or unavailable. As of December 31, 2017, the net amount of foreign currency hedges amounts to EUR 313 million.

However, the delays or variations in the cash flow of the projects may lead to the redirection of the hedges which may have a significant impact on the profitability of the project, and the profitability of the project in those foreign currency scenarios with strong volatility may even be negative.

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

Risk of delay or scope changes in projects

There is additional risk related to the effective fulfillment of forecasts for collection and payments of the different projects when they are affected by delays in their execution or changes in their scope. In such cases, the Group would be obliged to renegotiate the term or amount of the exchange rate insurance associated with the secured flows, which could generate additional financial costs or the assumption of losses or benefits in the case of a reduction in the scope of the project, depending on the evolution of the corresponding currency.

Risk of lack of competitiveness due to specific currency fluctuations

A significant part of the costs associated with the Group's export activity are denominated in Euros. An appreciation of the euro (in particular against the US dollar) may result in commercial offers presented by the Group being less competitive relative to the Group's international competitors, that have their cost base denominated in weaker currencies. This may reduce the Group's competitiveness in international markets

Risk of exposure to non-convertible or non-repayable currency

The Group's international presence in more than 140 countries entails specific financial risks in terms of exchange rate fluctuations, any currency depreciation or devaluation, possible freezing of payments abroad or the escalation of specific political problems in the countries where the Group operates. These factors, if materialized, can force the currencies into a period of instability and generate abrupt changes in their exchange rates.

In particular, the Group may be exposed to markets the currencies of which may be subject to legal restrictions that in many cases limit its disposition and transfer outside the country, normally imposed by local governments, and whose price is not determined by the free play of the supply and demand.

Exposure to Country Credit Risk

The Group operates in countries with limited solvency or high country risk according to the standards of international organizations such as the OECD (Organization for Economic Co-operation and Development), the IMF (International Monetary Fund) or the World Bank, mainly in projects of a public character such as Defense, Air Traffic or Transport.

To reduce this risk, whenever possible, the Group considers the use of Confirmed Credit Cards and insurance coverage offered by international insurance companies and organizations such as CESCE (Spanish Export Credit Insurance Company) and other ECAS (Export Credit Agencies) to mitigate country risk in those geographic areas with limited financial solvency.

However, it may not always be possible to obtain such hedges in higher risk countries in which the Group operates, for example, Nigeria, Argentina or Honduras.

Risk of Client Counterpart

The Group is exposed to credit risk to the extent that a customer fails to comply with its contractual payment obligations, resulting in losses for the Group. The Group has a broad portfolio of clients, maintaining trade relationships with business groups, governments and public and public-private entities, which exposes it to commercial debts arising from ordinary business transactions, both domestically as well as internationally.

In order to minimize the possible impact of these factors, the Group periodically assesses the use of operational measures (credit cards, collection insurance), accounting (provisioning to deal with possible defaults) and financial (use of non-recourse factoring lines for advance payment of certain customers).

Although as described above, the Group remains exposed to credit risk due to default or delays in collections from its customers, which may result in impairment of balance sheet items (customer account) and reduction of declared income (if the impact occurs in the same year), with the consequent impact on the Group's income statement and/or equity.

As of December 31, 2017, the amount of commercial debtors and other accounts receivable in the consolidated balance sheet amounts to EUR 1,248 million (EUR 1,210 million in 2016), of which EUR 241 million (EUR 263 million in 2016) are over 12 months old. The stated amount of commercial debtors and other accounts receivable includes the provisions that the Group has made in the amount of EUR 128 million (EUR 126 million in 2016) against this client portfolio and, depending on how the ongoing projects evolve, additional impairments may arise

Risk of access to source of financing

The Group's cash generation capacity may not be sufficient to meet its operating payments and financial commitments, which could imply the need to obtain additional financial resources from alternative financing sources.

As of December 31, 2017, the Group's gross financial debt position is EUR 1,287 million (EUR 1,197 million in 2016), including financing from Spanish and foreign financial institutions, capital markets (convertible bonds), institutional investors (private debt placements) and financing lines of non-banking entities, such as the CDTI (Center for the Development of Industrial Technology).

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

Despite the diversification in the Group's financing sources, the existence of factors that may hinder the Group's access to these financing sources, or the worsening of the economic (maturity date, cost, amortization profile, etc.) or contractual terms (covenants, guarantees, etc.) in which this financing is available, can have a significant impact on the Group's strategic and financial flexibility, and may even affect the solvency of the Group.

Liquidity risk

The Group is exposed to the risk that it will not be able to meet its financial commitments on time, through the delivery of cash or other equivalent financial asset.

As of December 31, 2017 and 2016, the Group's gross long-term financial debt amounts to EUR 1,016 million and EUR 1,136 million, respectively (79% and 95% of the Group's gross financial debt, respectively), while the gross short-term financial debt stood, at that same date, at EUR 271 million and EUR 61 million, respectively (21% and 5% of the Group's gross financial debt, respectively). On the other hand, the balance of treasury and other equivalent liquid assets of the Group at December 31, 2017 amounts to EUR 699 million (EUR 674 million in 2016).

Thereby, as of December 31, 2017, the Group has a net financial debt position of EUR 588 million (EUR 523 million in 2016), consequently the Group is dependent on the cash generation of its own operations in the short term and/or obtaining additional financial resources from financial entities, to deal with:

a. its business and operational payments, and

b. the reimbursement of the amounts lent by the financial entities and the accrued interest upon their corresponding maturities.

The Group carries out treasury forecasts to ensure that it has access to the resources necessary to meet its operational and financial requirements. Likewise, the Group has non-disposed credit lines in the amount of EUR 233 million in 2017 (EUR 285 million in 2016).

However, these forecasts are based on the best estimates of the Group at any given moment about the foreseeable evolution of cash flows and payments, and as such are subject to changes or variations due to the evolution of business or the conditions in which the Group's companies operate. In the past, there have been frequent deviations from the forecasts due to the reasons explained above.

Interest rate risk

A considerable part of the Group's financing cost due to variable interest rates that are updated on a quarterly, semi-annual or annual basis according to each contract and are subject to the interest rate variations in the interbank markets (normally the Euribor rate for the reference term). Therefore, a rise in interest rates results in higher financing cost for the Group, with the consequent impact on the Group's profitability.

To partially limit this impact, the Group issues debt instruments at a fixed rate and periodically evaluates the convenience of order intake derivative financial instruments with financial institutions to manage these risks and cover the fluctuation of interest rates.

As of December 31, 2017, 36% of the Group's gross debt carries a cost at a fixed-interest rate, including EUR 397 million (EUR 390 million in 2016) in convertible bonds.

Additionally, the Group, analyzes the effect on asset impairment due to interest rates on discounting cash flows. An increase in interest rates may lead to various impairments in the Group´s portfolio of assets and liabilities.

The following table shows the sensitivity of the Group's consolidated profit/loss, expressed in millions of euros, to fluctuations in the interest rate at December 31, 2017 and 2016:

	2017 FISCAL YEAR		**2016 FISCAL YEAR**	
	INTEREST RATE VARIATION		**INTEREST RATE VARIATION**	
	+0.5%	-0.5%	+0.5%	-0.5%
Effect on the Profits or Losses pre-tax	(0.89)	0.89	(1.25)	1.25

Risks derived from guarantees disposal

In the normal course of its activity, the Group is obliged to present guarantees to third parties as security of compliance with contracts and receipt of advances. These guarantees are issued, mainly, by banks and insurance companies. Given the geographical diversification of the Group, such guarantees must be issued in numerous geographies and currencies.

On December 31, 2017, the Group has presented guarantees to third parties, issued by various

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

banking and insurance companies, assurance of fulfillment of contracts to a total amount of EUR 955 million (EUR 1,003 million in 2016).

In this context, there is a risk that these banking and insurance entities increase the cost and/or reduce the amounts or even cancel the lines granted to the Group for the issuance of guarantees. Likewise, there is a risk that certain countries, currencies or clients with limited solvency or associated risk, are excluded, which would limit their commercial capacity and business attainment.

Likewise, these guarantees are mostly linked to good performance of projects' execution, so that any problems in the delivery could entail risks of execution of guarantees, which could affect the future availability or cost of guarantees, with the consequent impact on the Group's commercial and financial capacity.

Risk of access to funding sources for R+D activity

The Group uses financing from companies that fund R+D projects, such as CDTI, among others, and which are important for the execution of certain R+D projects. These loans have particular characteristics in terms of duration, cost and flexibility in the repayment, sometimes linked to the commercial success of the product. The amount of these loans, as of December 31, 2017, represents 13% (15% in 2016) of the Group's gross financial debt.

A reduction in the availability or changes in the characteristics of such loans could limit the ability of the Group to obtain resources for its R+D projects under said conditions, which would imply the use of alternative sources of financing.

Risk of non-compliance of financial ratios

The Group companies have the obligation to comply with certain solvency ratios, accumulated losses, liquidity ratios of assets and current liabilities for their activities and bids with public administrations in certain geographical locations.

Changes of a regulatory, fiscal or legal nature, or those related to financial and/or business evolution could affect ratios, which may have an impact on financing recruiting and compliance with financial obligations.

On the other hand, as of December 31, 2017, the Group's financing is not subject to compliance with financial ratios, except for one financing line for R+D projects contracted in December 2016 (representative of less than 11% of the Group's gross financial debt) that includes the obligation that net equity represents a minimum against the sum of the net equity plus net financial debt.

Risk of management of payments to suppliers through confirming lines

The Group maintains confirming lines with financial companies so as to assure that those suppliers that wish to advance the collection of the current invoices owed may do so. These lines allow suppliers to effectively manage their collections. A reduction in the limits of these lines could lead to treasury tensions in some of the Group's suppliers, which could deteriorate the level of service or even the timely availability of the contracted products. The Group maintains an appropriate policy of diversifying the number of its suppliers, but an adverse effect on some of the suppliers as in the case described above, can occur.

Risks arising from changes in accounting standards

The accounting standards and the presentation of financial information that govern the preparation of the Group's consolidated financial statements are subject to revision and modification by the international accounting standards bodies, as well as by other regulatory authorities. Such regulatory changes can have a notable impact on the way in which the Group accounts for and presents the financial information.

In particular, as of the date of this Registration Document, the Group's Management is evaluating the impact that applying the standards and interpretations issued by the International Financial Reporting Standards Board (IASB) would have on the Group's Consolidated Financial Statements, if they were finally validated by the European Union. However, this impact is not expected to be significant, except for IFRS 9, which under the heading "Financial Instruments" replaces the current requirements for classification, valuation, recognition and retirement of financial assets and liabilities, as well as accounting of hedges and impairment; IFRS 15, "Revenue from Contracts with Customers" contains new criteria for the recognition of income; and IFRS 16, which under the heading "Leases" provides that lessees include all their leases in their respective Statement of Financial Position as if they were financed purchases. It is expected that such standards will be mandatory as of January 1, 2018. For more details see Note 2 attached on the Consolidated Annual Accounts for the year 2017.

b) Operational risks/Risks associated with processes

Risks arising from the execution of projects

The Group aims to exploit its growth potential in the business of technological solutions and services for its clients, by increasing its customer base, cross sales, the sale of additional modules and the development of a new commercial offer. The implementation of technological solutions involves the realization of complex projects of large magnitude, which require substantial support operations, significant and qualified resources, and in many cases dependence on the effort and cooperation of suppliers, as well as the clients themselves.

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

There is a risk in the event that the Group does not have a global vision of who the client is, or that the client has a complex or unstable organization; Likewise, there is a risk that if the Group is unable to deliver the offered solution, or if the scope offered requires a higher cost or technological restrictions that prevent the agreed scope from being delivered in a timely manner, this may lead to a significant loss in profitability and cash in said projects, which could have a significant impact on the Group's financial position.

Likewise, deviations in the execution of a project could lead to contractual penalties and even the cancellation of certain projects. Such situations could affect the reputation and commercial solvency of the Group not only with respect to that client, but with respect to other clients in the same or other sectors and geographical locations where the Group operates. In any case, no project represents more than 10% of the Group's consolidated revenues.

Risks related to non-compliance with the Group's power structure could lead to the acquisition of contractual commitments that are detrimental to the Group.

On the other hand, the Group sometimes participates in businesses in consortiums where its participation is a minority, being therefore exposed to the risk of changes in conditions and/or scope of these projects.

The Group carries out continuous analysis on the expected future profitability of the projects under execution with the best information available at any given time, which can lead to significant provisions upon completion of this analysis if, as a consequence of this process, a greater assumption of costs is made compared to what was initially planned.

In addition, periodic reviews of its project portfolio are carried out identifying those whose which show signs of possible losses, provisioning these as they are identified. As of December 31, 2017, the Group recorded a net movement of provisions for this concept to the negative amount of EUR 15 million (EUR 1 million positive in 2016).

Finally, the contracts that the Group signs with its clients, usually contain measures designed to limit its liability for damages caused or for defects or errors in its products or services. However, it cannot be guaranteed that these measures will protect the Group effectively and in any case if confronted with legal claims, additionally, the liability insurance may not be sufficient to cover all costs arising from such legal claims.

Risk of growth per acquisition/derivative in integrating new businesses

The use of inorganic growth opportunities is essential in sectors with a strong technological base, and those that require the incorporation of new technologies as a complement to internal development, as well as those in which scale is a determining factor in the profitability and competitive position of the different competitors.

The success of the inorganic growth strategy will depend on the ability to find suitable procurement objectives under favorable conditions, and the ability to finance and complete these transactions in a satisfactory manner. Likewise, the integration of new businesses involves risks inherent to the acquisition process itself and also in its subsequent integration.

On the other hand, the acquisition of certain businesses could be subject to compliance with certain requirements (in terms of, for example, competition, defense, etc.), which could limit the attractiveness of the assets to be incorporated or even prevent their acquisition.

There is a risk that the Group will encounter difficulties in integrating the acquired businesses, such as the impossibility of obtaining cost reductions or the expected commercial synergies, which may result in the acquisitions not being as advantageous in financial terms as might have been expected. There is also a risk that the expected operational, fiscal and/or financial synergies will not be achieved due to possible legislative changes. Likewise, there are risks associated with the increase in the Group's indebtedness, or even derived from the appearance of liabilities that had not been identified in the previous processes of due diligence, or the possible impact of an impairment in the value of the assets acquired.

In this context, the INDRA Group is mainly exposed to the following risks related to the possible acquisition of Tecnocom, Telecomunicaciones y Energía, SA ("Tecnocom"). In general terms, it must be taken into account that the risks currently affecting Tecnocom (which is also affected by risks associated with the sector of activity, and most of the risks that also affect the INDRA Group described in this section of the Management Report), as well as any other factors that may arise as a result of this acquisition operation and the integration from the operational perspective of Tecnocom in the INDRA Group, will be part of the risks that will affect the group resulting from the integration of the INDRA Groups and Tecnocom considered as a whole (for the purposes of this point, the "Resultant Group").

The following outlines some specific risks in relation to the acquisition:

Appearance of hidden or unknown liabilities at the time of acquisition

Despite having carried out a legal and business review process on Tecnocom, with a necessarily limited scope, Tecnocom's assets could conceal irregularities or material defects that were not apparent or known to the Group, or that were not detected at the time of acquisition and, consequently, meant that the Group had to face unexpected contingencies (such as the lack of securities, the impossibility of obtaining permits or licenses for the exploitation of its activity,

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

or structural, operational or other types of flaw), notwithstanding that the projects undertaken by Tecnocom may prove to be more onerous than anticipated, that there are uncollectible debts, payment commitments with suppliers or other unforeseen items, that business expectations do not materialize or that there is not enough cash to meet the payment obligations of the Affected Company. In addition, the above could involve the integration by the Group of assets that are not consistent with its investment strategy or from which the expected return is not obtained.

In turn, such hidden defects could in any case produce a significant adverse effect on the business, financial position and results of the Resulting Group, all without prejudice to the possible cost to the Group's reputation.

Risks derived from integration

The integration of Tecnocom into the INDRA Group after its acquisition can be difficult and complex, and the costs, benefits and synergies derived from such an integration may not be in line with those initially expected. In particular, the initially expected synergies may not materialize, in whole or in part. The INDRA Group could, for example, have to face difficulties and obstacles as a result of, among other issues, the lack of agreement with the different parties for the implementation of the synergies, possible incompatibilities between the respective cultures or business policies, Remuneration structures of the INDRA Group and Tecnocom, the potential loss of part of the business with certain clients where, due to the operation, exposure to the Resulting Group is considered excessive, the need to implement, integrate and harmonize various procedures and business specific operating systems and financial systems, accounting, information or any other systems of each of the Groups, which could adversely affect the ability of the Company to maintain its relationships with its customers, employees and suppliers after the acquisition, as well as any other business relationship. The integration process can also cause alterations in existing businesses and unforeseen expenses.

Furthermore, the amount of attention required by the management teams of INDRA and Tecnocom to focus on issues arising from integration, could create an adverse effect on the business of the INDRA Group, as well as on its commercial capacity, and also in the perception that clients may have about the proportion of time an employee dedicates to the business when carrying out the integration or in other issues derived from the offer. In the event that the INDRA Group is not able to manage the extended organization efficiently, it could result in not achieving the full integration of Tecnocom assets and resources in a satisfactory manner, which could have a significant adverse effect on the business, the results and the financial situation of the Resulting Group.

The Resulting Group may not be able to retain key executives and employees or efficiently manage the workforce

The success of the Resulting Group will depend in part on its ability to retain key executives and employees from Tecnocom, and on the successful management of the new larger organization following the integration of Tecnocom. Certain executives and key employees may leave the Resulting Group, as a consequence of factors related to the difficulty of integration of both groups, uncertainty about it or the simple intention of not remaining in the Resulting Group, and competition for qualified personnel to replace them can be intense. Furthermore, the INDRA Group may experience difficulties in the efficient management of a larger number of employees. Therefore, the Company cannot ensure that the Resulting Group is capable of retaining key executives and employees, or successfully managing the new, larger and more diverse combined organization, which may have a material adverse effect on the Resulting Group's business, as well as having a negative and significant impact on the results and financial situation of the Resulting Group.

Reputational risk

The Group's reputation is linked to contractual compliance, maintenance of good relations with customers, compliance with applicable regulations (especially criminal, fiscal, regulatory and environmental), as well as good management of conflicts that may arise in the exercise of the ordinary lines of business of the Group.

On the other hand, the Group operates and provides services in very sensitive areas, such as electoral process management, rail and air traffic management and Defense, the nature of which continually exposes the Company to factors beyond its control that can negatively affect its brand.

Likewise, although the Group has adopted internal control measures designed to mitigate these risks, it is still exposed to other factors that it has not been able to foresee and control internally, factors outside its business structure and the behavior of certain members of the Company could affect its image. In the event of this happening, any of these situations could negatively affect the Group's brand and, therefore, its ability to maintain its competitive position in the markets in which it operates.

Risk of non-satisfaction of the client

Higher expectations of the client not reflected in the contractual requirements or breaches in deadlines could result in client dissatisfaction, misunderstandings and continuous conflicts, could result in lack of payments, penalties, decrease of future order intake or cancellation of the contract.

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

Quality and safety risk of the supplied products

Quality deficiencies or non-compliance with the conditions of supply or delivery of the products or services provided externally, may imply reworking and delays, negatively affecting the margin and the Group's ability to fulfill the agreements entered into with its customers.

Risk of difficulty in complying with contractual commitments

The lack of contractual formalization with customers, suppliers, TBAs, Consortiums and Associations, as well as the establishment of unfair terms or penalties, or terms not contractually reflecting changes of scope, may imply a significant variation in the Group's costs or revenues. The fulfillment of the contractual requirements with the client requires a correlation between the obligations of the suppliers and the obligations to the client.

Risk arising from the non-recovery of intangible assets and goodwill

In the event that the Group is unable to comply with the business plans of the intangible assets activated on its balance sheet, it may be forced to adjust the value of these assets, with the consequent financial impact that this would represent for the Group.

As of December 31, 2017, the Group had a total of EUR 352 million net intangible assets (EUR 285 million in 2016).

Likewise, the Group may be required to provision goodwill arising from past corporate transactions in the event that future business prospects associated with these businesses are not able to justify the book value of such goodwill.

As of December 31, 2017, the Group had a total of EUR 803 million in goodwill (EUR 472 million in 2016).

Risk of inappropriate segregation of businesses

Inadequate management of business segregation could affect the operation.

Risk of customer dependence

The Group has a broad and diversified portfolio of large clients with which it seeks to build long-term sustainable relationships. Its main clients include large business groups, governments and public and public-private entities in the different jurisdictions in which the Group operates. As of December 31, 2017 and 2016, no Group client accounted for more than 10% of the Group's consolidated income.

The success of the Group's business is linked to maintain or increase demand for its projects and services, which will depend, in turn, on the proper functioning of the business and the budgetary or financial limitations of its customers. Therefore, all the factors that may affect the business of its customers, will indirectly affect the Group's results.

Portfolio and hiring risk

The positive development of the backlog of the Group in a specific year depends both on the accumulated order intake until the beginning of that year and on the new order intake generated during that year.

The accumulated order intake on its part is affected by variables external to the Group such as variations in the exchange rate (for contracts denominated in foreign currency), adjustments to the scope of projects, delays in the start-up of services or projects, and even cancellations of contracts. The order intake of new projects each year is conditioned by the Group's ability to adapt to market developments in terms of competition, supply and product development.

All these events can have a material impact on the Group's backlog and therefore on the future income of the Group.

Risks derived from the seasonality of the Group's cash flow

The nature of the budgetary and payment processes of some of the Group's clients (mainly clients associated with the public sector) determines that there may be periods of concentration of receivables associated with projects around certain dates, mainly concentrated in the last weeks of calendar years. During the year 2017, EUR 187 million of positive free cash flow was generated (EUR 184 million in 2016). Also, in some cases clients linked to the public sector follow payment management processes that are conditioned to the review of other authorities or government entities, which may involve delays or adjustments to the payment schedule itself. This dynamic creates seasonality in the cash flows generated by the Group that could give rise to treasury tensions in those periods during which the charges associated with the projects are structurally lower.

Risk derived from the execution of the Strategic Plan 2015-2018

Among the key factors to achieve its objectives of sustainable and profitable growth, the Strategic Plan 2015-2018 includes a review of the portfolio of products and projects and cost savings derived from operational restructuring and optimization of the commercial, production and delivery models focused mainly on the recovery of the profitability of the Information Technology business segment for more information on the Group's business segments. It is expected that all these measures will

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

lead to an increase in profitability and a better positioning of the Group vis-à-vis our customers, through four levers, namely:

- development of standardized products (which will be developed with more efficient costs, scopes and times),
- new tools and high quality processes for project management,
- reduction of errors and extra costs, and
- continuous improvement of the customer experience to increase their loyalty.

However, this process of optimization and continuous adjustment involves risks derived, on the one hand, from its own execution and, on the other, from the lack of success in adopting the measures required to achieve the proposed objectives.

In addition, the objectives contemplated in the aforementioned Strategic Plan 2015-2018 are based on estimates and forecasts about the Group at the date of announcement. These estimates are conditioned by risks, uncertainties and other factors that could cause the final results to differ from those expected.

Risk of international expansion

Being a group with a significant international presence, the Group is exposed to the risks related to the adaptation to the environment or to the market in the geographies in which it operates, as well as to the risks inherent in the lack of knowledge and experience in the markets. Geographical areas that it intends to develop. This implies that the Company may be subject to reductions in demand, or to a decrease in productivity as a result of unfavorable conditions, as well as changes in national policies and regulations applicable to the sectors in which it operates, all of which may affect the financial, economic or equity situation of the Group.

Exposure to this type of risk can be increased in those countries and emerging markets where political standards and good practices are less stable or less developed.

Risk derived from the joining of Temporary Business Associations

The Group participates in various joint activities with other ventures through Temporary Business Associations (TBA). In this context, there is a risk that the partners or participants of such TBAs do not attend punctually to the contractual obligations, in which case it would be the Group that should comply with the obligations derived from the aforementioned contracts, by virtue of the joint and unlimited liability of the members of the TBA vis-à-vis third parties.

Likewise, given that a relevant part of the Group's activity is carried out in the Public Authorities sector, the Group frequently calls for bids grouped into TBAs. In this context, there is a risk that groups joining a joint venture for the purpose of bidding will be considered by the competition agencies (notably, the National Commission of Markets and Competition) as a way to conceal, under the legal appearance of the TBA, the existence of collusive conduct, and, in particular, in those cases in which the integration agreement between the members of the TBA is not duly justified from the business point of view or contemplates agreements that have the distortion of competition as their object or effect. If this risk materializes, the competent competition agency could initiate the corresponding disciplinary proceedings, which could eventually lead to the imposition of economic sanctions against the Group.

Supplier risk

The creation of long-term relationships with the Group's suppliers is a key factor for the successful development of the Group's business. However, a greater reliance on one of these suppliers in the Group's operations could result in a reduction in the Company's flexibility to face unexpected adverse circumstances that could arise from such suppliers, as well as a reduction in power of the Group. Likewise, in the event of inappropriate practices by one of the participants in the Group's supply chain, it could be affected by legal, financial or operational contingencies or damage to its image among others.

Likewise, the Group works in all sectors in which it operates with a series of niche suppliers specialized in specific products and services that the Group requires for the development and implementation of its projects. Therefore, in the event that niche suppliers could not supply their products or services within the agreed term, it may not be easy to replace them in a short period of time, which could lead to a deviation in the execution period of the projects negatively affecting the Group's results. In addition, eventual changes in the pricing policy of suppliers could significantly affect the profitability of the associated projects.

Risk of finding alliances, Partner and appropriate technology partners

The absence of search, order intake or alignment with technological partners may invalidate the possibilities of having an adequate offer and therefore limit the growth and competitiveness of the Group.

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

Risk derived from the purchasing strategy (supply, quality and service of products supplied and warehouse management)

The absence of planning and anticipation of purchases from a global perspective and not project to project, could cause losses of savings opportunities or cost reduction, inability to bid by term as well as an inadequate diversification of the supply base or at the opposite extreme its excessive concentration.

Likewise, an incorrect management of both own and third-party materials could lead to inefficient cost optimization (financial, obsolescence...)

Insufficient insurance coverage risk

Even when the Group seeks to ensure the risks to which it is reasonably exposed and considers that its insurance coverage meets the usual market standards, it can not guarantee that its policies cover all of its liabilities or damages in the event of an incident.

In this sense, the Group may be obliged to bear significant costs in the event that (i) its insurance policies do not cover a certain loss, (ii) the amounts insured by said policies were insufficient, or (iii) the insurance company is unable to pay the amounts insured, all without prejudice to the increase in insurance premiums.

Risk of loss of competitive position

A poorly optimized cost structure, or a price competition market for commodity services or products, can lead to a loss of competitiveness that could lead to the loss of the current client portfolio and hinder the acquisition of potential customers.

Risk associated with the fluctuation in prices of materials, Services and labor

Fluctuations in the prices of materials and services and/or skilled labor may imply risks related to the competitiveness of our prices.

Risk of an inadequate suborder intake management model

An inadequate model of outsourcing management of resources could generate a risk of illegal assignment and having to assume the labor liabilities of subcontracted workers, incurring legal contingencies and losing the sought-after flexibility advantage.

Technological risks

The Group is exposed to a series of technological risks that can have a significant impact on the Company from the economic point of view and from the point of view of credibility and image. Among the so-called technological risks are the risks associated with the constant change in technology, as well as those derived from security in Information Technology and, especially, those that may lead to loss of information owned by the Group or its customers.

<u>Risk of changes in technology</u>

Some of the sectors in which the Group operates are in a constant process of development and innovation, which implies that the technologies used or developed by the Group may become obsolete, and it is therefore necessary to make a high effort to maintain the Group's technological development. In this context it is necessary not only to adapt to the constant technological changes, but also to be able to anticipate them sufficiently in advance to adapt the technological offer of the Group in order to provide a quality, updated, reliable and safe service to customers.

On the other hand, the Group's customers face disruptive changes in their own business models that are threatened by new competitors based on much more advanced technological platforms (i.e.: new fintech operators versus traditional banks). The ability of these customers to adapt to these changes is key to ensure their survival in the medium term and the lack of response capacity of these customers could negatively affect the Group to the extent that it could lose business from these customers.

<u>Risk due to vulnerability to computer attacks</u>

The Group manages, maintains and operates systems and infrastructures that transport and store large volumes of confidential, personal and business data, with a large impact on all types of customers and users. Digitization and multi-channeling increase the risk of threats and leaks, endangering one of the Group's biggest assets: data. Possible leaks, alterations or interruptions of service due to a cyber attack would not only have an impact on the reputation of the Group but could also lead to legal claims and civil and even criminal liabilities.

<u>Risks related to the protection of know-how</u>

The technologies developed by the Group, as well as the knowledge that it holds in relation to certain areas or sectors, incorporated into the Group's services and solutions are valuable intangible assets for the Group, therefore, their protection is essential for its business. The Group adopts mechanisms to protect technology against copies, viruses, unauthorized access, identity theft, hardware and software failures, computer fraud, loss of computer records and technical problems, among others.

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

The protection of the Group's know-how is entrusted to all its professionals, and, in particular, to its legal services. In accordance with the Group's Code of Professional Conduct, all employees are required to protect their technology and know-how, among other critically important assets. Specifically, legal services are concerned with safeguarding the intellectual and industrial property of the Group, through:

a. adequate contractual protection in the relationships maintained with customers and suppliers, and

b. the active management of their rights through the registration and monitoring of intellectual property registers and deposits, patents and trademarks.

However, the measures adopted by the Group may not be sufficient to protect its know-how and its technologies, thus adversely affecting the Group.

Risks of human capital and social-labor conflicts

The sectors in which the Group operates are characterized by a high degree of specialization, due to a high rate of innovation and constant technological changes, which requires the Company to have at all times a highly qualified workforce equipped with the know-how specific for the development of their projects, mostly with a high technological component.

The ability of the Group to attract, retain and train the right professionals at any time is therefore key, avoiding the rotation in certain professional groups who incur a high replacement cost. In this context, the Group can not guarantee that it can retain these key personnel in the future or that it manages to capture the talent it needs in the market.

In turn, the profitability of some of the Group's businesses requires active management of the pyramids of existing employees in the Group, a circumstance that is often limited either by the Group's financial capacity or by specific labor regulations in certain countries.

In this sense, the Group operates in markets with specific regulations for certain groups of employees (for example, the Brazilian labor legislation regarding employees of subcontracted companies) that may involve significant risks and labor contingencies. Even though the Group maintains a homogeneous human resources policy for the Group, it is inevitable to have to adapt to local situations in each country, which can lead to risk situations related to these legislations.

On the other hand, an inadequate management of the relations with the legal representatives of the workers as well as an inadequate communication with the professionals could cause demands or impact in the media.

<u>Social climate risk</u>

The failure to survey the social climate involves risks associated with the impossibility of taking preventive measures, loss of talent and rotation.

<u>Risk of hiring and training difficulties</u>

A lack of employees with the required training and qualifications makes it difficult to complete the projects and initiatives proposed by the Group.

<u>Compensation and benefits risk</u>

An inadequate policy of compensation and benefits that is not adapted to the market, professional development and the Group's objectives could lead to a loss of talent and unwanted turnover.

<u>Health and Safety risk</u>

A poor application of the Occupational Risk Prevention management system in facilities, machinery, equipment and chemical products, activities and professionals could entail significant economic and/or legal contingencies between the Company and its workers.

Risks due to external factors

<u>Security risk, kidnapping, blackmail, extortion and catastrophe</u>

Inadequate management of people's safety could have a reputational, economic, human and legal responsibility impact on the Group.

<u>Risk due to fire, explosion and other causes, physical damage to the Group's buildings caused by fire, explosion, terrorism or any other cause</u>

They could jeopardize business continuity.

Risks to business continuity due to accidental, natural events...

Any accidental, natural or malicious event that could cause the interruption of critical business processes and/or the Group's key activities.

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

c) Risk of litigation and claims

Riesgo de litigios y reclamaciones

As part of its ordinary activity, the Group is exposed to litigation and claims, whether from workers, subcontractors, third parties, suppliers, tax authorities, competition bodies, or customers, among others. The uncertainty about the result of the litigation and claims entails the risk that a negative result could adversely affect the business and the reputation of the Group as well as its results or its financial, economic or equity situation.

The Group performs a quantification and qualification process of said risks on a recurring basis based on the best information available at any given time. There is a risk that such impact may be underestimated or that events may occur that cause the qualification and quantification of a litigation or claim to change significantly, with an impact greater than initially foreseen.

The Group records provisions for 100% of the amount of the proceedings in which it is a defendant and whose risk of occurrence has been classified as "probable" (i.e., the risk of the Group receiving a sentence of condemnation or dismissal is greater than 50%). As of December 31, 2017, the Group is a defendant in litigation for a total amount of EUR 44 million (EUR 40 million in 2016). Also, at that date, the amount of the provisions amounted to EUR 45 million (EUR 81 million in 2016). For more details regarding the procedures and litigation in progress affecting the Groups, see note 23.

Disqualification risk to contract with Public Authorities

The Group operates and works with Public Authorities with different characteristics and with very diverse regulatory, legal and compliance requirements in numerous markets and geographies. Possible litigation, disputes or claims with some of these Administrations may lead to the disqualification of the Company to contract with the Public Administration of that country, with consequently not only an economic but a reputational impact for the Group. Likewise, failure to comply with certain balance sheet ratios could prevent the Group from going to bids or even determining its disqualification from order intake with the Public Authorities.

Risk of legislative, regulatory and fiscal compliance

Given that the Group operates in several countries, it is exposed to compliance with different applicable laws and regulations: (i) of each of the markets in which it operates, (ii) of the European Union, and (iii) of the obligations derived from international treaties, as well as their possible future modifications.

Among the main regulatory non-compliance risks that may significantly affect the Group's business are those arising from its ordinary activities as well as those that derive from national and international crime prevention and fraud measures. In addition, it is important to highlight the legislative regulations of each country, which, in the event of non-compliance, could lead to the imposition of sanctions against the Group.

Likewise, the legal consequences derived from an act typified in a criminal law committed in the name or on behalf of the legal entity and for its direct or indirect benefit can have economic and reputational impacts for the Group.

On the other hand, the Group's activity is subject to the tax legislation of each country, as well as to double taxation treaties between the different countries in which it operates, and must, therefore, comply with each of the amendments that occur in relation to said regulatory bodies. In terms of tax rewards in favor of the Group, potential tax reforms in the countries in which it operates may result in the cancellation of said rewards, resulting in additional costs for the Group and therefore adversely affecting the business and its financial position.

The effects derived from the legislative changes in Spanish tax regulations should also be noted, which may have an effect on the Group's consolidated results as a result of possible adjustments in the item corresponding to deferred taxes at the different tax rates, or limitations of deductions, as well as cash flows, as a consequence of the need to make early payments and defer recovery of tax credits.

Risk of non-compliance with recommendations regarding Corporate Governance

Failure to comply with the recommendations and best practices in matters of Corporate Governance may lead to the shareholders at the Annual General Meeting not approving agreements submitted to it by the Board.

Risk of lack of certifications and accreditations

Failure to comply with the requirements associated with certifications or third-party accreditations to which the Group has adhered may result in the loss of the same, compromising the current order intake related to them, access and competitiveness in markets where they are required or valued and generate a negative impact on the reputation.

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

d) External risks/Risks derived from the current economic situation

Risk of exposure to the Spanish market

In spite of the efforts made to internationalize the Group in recent years, the Group depends heavily on the Spanish market. During fiscal year 2017, 53% of total sales came from this region (54% in 2016).

Relevance of the world economic situation to the business

The global macroeconomic situation and trends affect the Group's business, given its international presence.

On the one hand, the budgetary limitations that result, among others, from the problem due to high public deficits (for example in Europe) means a loss of direct business (public customers) and indirect loss for the Group.

On the other hand, the Group is also affected by the slowdown that emerging economies have experienced in recent years.

Exposure to these economies constitutes a significant risk for the Group's lines of business in these markets.

Additionally, geopolitical tensions, uncertainty on the international scene, terrorist actions, growth of populist political parties and/or nationalists opposed to globalization, among others, undermine investor confidence and could significantly affect the economic situation in those countries in which the Group operates, such as the United Kingdom or Latin American countries, either due to budgetary restrictions in sensitive items for operations of the Group (such as defense, transport, etc.), changes in regulation in sensitive sectors (for example, the banking sector), or increased dependence on local suppliers to the detriment of multinationals such as the Group. Any of these circumstances, as well as any other that could affect the global economy, could have a significant impact on the Group's business.

e) Risks of cultural changes and focus on profitability

Risk of not achieving levels of productivity and cost efficiency

If the Group was not able to achieve the required levels of productivity and cost efficiency, it could affect profitability and competitiveness.

Risk in the difficulty to manage the change

High levels of competition, economic internationalization and the emergence of new technologies have put pressure on the change in organizations and renewal processes, which are based on continuous innovation.

Resistance to change and the lack of transformation projects could hinder adaptation and progress.

Risk of inadequate organization of the Group

An organizational model that is inappropriate to the objectives of the Group and an inadequate separation of duties and responsibilities could make it difficult to attain them.

Planning and budget risk

If the planning/budget is not in line with the strategy and objectives, is not realistic or is not followed up properly, the Group could incur expenses, loss of income and a reduced margin.

Risk in the lack of adequate commercial channels

The lack of channels to detect new potential markets can reduce contractual capacity.

Risk in the management of product offer

If the Group is not able to offer an innovative offer, adapted to the needs of local customers with a correct balance between solutions and services, it could lose market share and profitability, which may affect its image.

f) Operational risks due to inadequate communication

Risk of inadequate effectiveness and adequacy of public relations

The lack of effectiveness and adequacy of public relations, as well as inadequate management of presence in the media and in social and professional networks; and the lack of promotion of alternative communication channels could affect the Group's credibility and positioning with customers, media, professionals, investors and other stakeholders.

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

Risk of inadequate communication with investors

Inadequate communication between the Financial, Investor Relations and Legal Advice departments could cause distortion in institutional messages or financial content, which could negatively affect the image of the Group vis-a-vis its investors and the shareholders at the Annual General Meeting. An inadequate frequency of these communications could adversely affect the relationship with investors and the shareholders at the Annual General Meeting.

Risk of brand positioning

The lack of knowledge and perception that the target group has of the Group's brand and the absence of marketing and communication plans could hinder implementation and growth.

9. STRUCTURE OF SHARE CAPITAL

As at December 31, 2017, the subscribed and paid-up share capital of the Parent is EUR 35,330,880.40, divided into 176,654,402 ordinary shares with a face value of EUR 0.20 each. 100% of the share capital consists of ordinary shares belonging to the same class and, therefore, confer the same rights and obligations, there being no restriction on their transferability or voting rights.

The main shareholders of the Parent as at December 31, 2017 with ownership interest of more than 3% are: SEPI (18.7%), Alba Financial Corporation (10.5%), Fidelity Management & Research LLC (9.4%), T. Rowe Price Associates (5.1%), Norges Bank (4.1%), Allianz Global Investors (3.4%) and Schroders (3.2%).

10. OTHER CORPORATE INFORMATION

The additional information traditionally contained in this section relating to (i) standards applicable to the modification of the Company's bylaws, (ii) restriction on the transfer of securities and any restriction on voting rights, (iii) powers of the members of the board of directors and, in particular, those relating to the possibility of issuing or repurchasing shares, (iv) significant agreements entered into by the company that are in force, modified or terminated in the event of a change in management of the company as a result of a takeover bid, and (v) agreements between the company and its management and management positions or employees that are granted compensation when they resign or are unfairly dismissed or if the employment relationship comes to an end due to a takeover bid, is included in the Annual Corporate Governance Report (sections B.3, A.10, C.1.10, C.1.44 and C.1.45 respectively) in accordance with the provisions of article 540s of the Spanish Corporation Law. Said Report, as established in section 12 below, forms an integral part of this Management Report.

On November 23, 2017, the Board of Directors of the Parent approved the Strategic Plan 2018-2021, which includes the future corporate reorganization of the group based on segregation of the IT economic unit. This economic unit consists of the following lines of business (i) supply and marketing of proprietary solutions (understood as those technologies developed internally by the Parent, which are sold to third parties) and third party solutions (understood as those technologies and solutions developed by third parties that Indra Sistemas has the ability to implement and manage), (ii) division of technology understood as Minsait specializing in digital solutions, (iii) lines of business known as "CDG ITO" that encompass everything related to the outsourcing of IT services, and (iv) lines of business known as "CDG's" which are centers devoted to the development of software that perform this activity as a definable, repeatable and measurable industrial process in a high productivity environment.

11. SHAREHOLDER REMUNERATION

During fiscal year 2017, no dividend was paid out by the Parent.

The Board of Directors of the Parent will propose to its shareholders at the Annual General Meeting that of the profits of EUR 91,533,755.38, EUR 91,422,344.26 be applied to compensate for losses from previous years and EUR 111,411.12 be set aside in legal reserves.

The proposed application of the profit or loss for the year 2017 in the Group companies has been formulated by their respective Administrators and is pending approval by the corresponding shareholders at the Annual General Meeting.

12. DERIVATIVES

The Group carries out an active management policy to hedge the risks derived from interest rate fluctuations (completed in May 2017) and exchange rates, by order intake hedges and derivative instruments with financial entities.

13. ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report forms an integral part of the Management Report and can be viewed on the CNMV's website (www.cnmv.es) which has been sent by the Company as a Relevant Event and on the corporate website (www.indracompany.com).

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

14. NON-FINANCIAL INFORMATION

Non-financial information, in accordance with the provisions of European Parliament and Council Directive 2014/95/EU and of Royal Decree-Law 18/2017, which modifies the Commercial Code, the revised text of the Law of Capital Companies approved by Royal Legislative Decree 1/2010, of July 2, and Law 22/2015, of July 20, of Audit of Accounts in matters of non-financial information and diversity, is contained in the Corporate Social Responsibility Report that forms part of the Management Report as an annex and, therefore, is subject to the same approval, deposit and publication criteria as the Management Report, having been formulated by the Board of Directors together with the Management in its session of March 19, 2018.

This Corporate Social Responsibility Report includes the information necessary to understand the development, the profits and losses and the situation of the group, and the impact of its activity with regard to, at least, environmental and social issues, as well as regarding personnel, the respect of human rights and the fight against corruption and bribery, among others. The Corporate Social Responsibility Report can be consulted on the company's website (www.indracompany.com).

15. TREASURY SHARES

In use of the powers granted by the Annual General Meeting, the Company directly has a total of 813,376 shares amounting to EUR 9,432 thousand as at December 31, 2017.

During fiscal year 2017, the Company acquired 11,627,889 treasury shares on the stock market (6.10% of the annual volume) and sold 11,148,021 treasury shares (5.84% of the annual volume).

On July 7, the Liquidity Agreement subscribed on July 31, 2014 was rescinded with GVC Gaesco Beka, SVSA notified by Relevant Event with registration number 209467 to replace it with a new contract with the same entity that meets the requirements contemplated in Circular 1/2017, of April 26 of the National Securities Market Commission, on liquidity contracts.

16. SUBSEQUENT EVENTS

On February 26, 2018, the tax inspection's minutes were received corresponding to Indra Sistemas and its subsidiaries, Indra Software Labs and Indra BPO Servicios, which have been signed in accordance with an amount of EUR 8,920 thousand and in non-conformance with amount of EUR 18,561 thousand.

On January 26, the Parent signed a (non-convertible) bond with Bankia for an amount of EUR 30,000 thousand with a unit face value of EUR 100 thousand. The maturity is 8 years at an interest rate of 2.90% per annum. The interest payment will be made in February of each year.

17. ALTERNATIVE PERFORMANCE MEASURES

In accordance with the ESMA Guidelines on Alternative Performance Measures (APMs), Group Management considers that certain APMs provide useful additional financial information that should be considered when evaluating their performance. The Management additionally uses these APMs in making financial, operational and planning decisions, as well as to evaluate the performance of the Group. The Group presents the following APMs that it considers appropriate and useful for investor decision-making and which are the ones that give greater reliability to the Group's performance.

Gross operating profit/loss (EBITDA)

- Definition/Conciliation: It is the Operating Result plus the Amortization of the Fixed Assets.
- Explanation of use: It is a financial indicator that the Company uses to determine its productive profitability and that investors use for the valuation of companies.
- The Group also uses the EBITDA Margin as an indicator of the performance of its activity, which is the quotient between EBITDA and the amount of sales for the same period. This indicator is interpreted as the operating profit of the Group for each euro of sales.
- Consistency of the criteria used: There is no change of criteria with respect to the criteria used in the previous year.

CONSOLIDATED INCOME STATEMENT (MEUR)	2017	2016
Operating result	196	162
Amortization	71	68
Gross operating profit/loss (EBITDA)	266	229

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

Operating Result (EBIT)

- Definition/Conciliation: It is defined in the condensed consolidated interim income statement.
- Explanation of use: It is a financial indicator that the Company uses to determine its productive profitability and that investors use for the valuation of companies.
- The Group also uses the EBIT Margin as an indicator of the performance of its activity, which is the quotient between EBIT and the amount of sales for the same period. This indicator is interpreted as the operating profit of the Group for each euro of sales.
- Consistency of the criteria used: There is no change of criteria with respect to the criteria used in the previous year.

2017*

MEUR	T&D	IT	TOTAL
Ventas totales	1,183	1,828	3,011
Ventas intersegmentos	-	-	-
Ventas externas	1,183	1,828	3,011
Margen de Contribución	224	258	482
Margen de Contribución %	18.9 %	14.1%	16 %
EBIT	137	58	196
EBIT Margin (%)	11.6 %	3.2 %	6.5 %

*Note: The data shown includes the Tecnocom figures from April 18.

2016

MEUR	T&D	IT	ELIMINATIONS	TOTAL
Total Sales	1,224	1,495	(10)	2,709
Sales - inter-segments	0,0	10	(10)	-
External Sales	1,224	1,485	-	2,709
Contribution Margin	233	145	-	378
Contribution Margin (%)	19.1%	9.8 %	-	14.0 %
EBIT	160	2	-	162
EBIT Margin (%)	13 %	0.1%	-	6 %

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

Net Financial Debt

- Definition/Conciliation: The Net Financial Debt is obtained by subtracting the balances corresponding to the Consolidated Financial Statements headings, "Debts with non-current and current Credit entities" and "Financial liabilities for the issuance of bonds and other non-current and current negotiable securities", the balance amount from heading "Cash and cash equivalents".

- Explanation of use: It is a financial indicator that the Group uses to measure the company's leverage.

- Accordingly, the Group uses the Net Financial Debt to EBITDA ratio as an indicator of its level of leverage and ability to repay its financial debt. For this reason, the EBITDA figure used in the calculation of the ratio corresponding to interim periods is made taking into account the annual equivalent EBITDA figure of the 12 months immediately prior to the date of calculation of the ratio.

- Consistency of the criteria used: There is no change of criteria with respect to the criteria used in the previous year.

CONSOLIDATED REPORTING (MEUR)	2017	2016
Cash and other equivalent liquid assets	699	674
Non-current liabilities	(1,016)	(1,136)
Amounts owed to credit institutions	(748)	(722)
Financial liabilities from the issuance of negotiable obligations and securities	(269)	(414)
Current liabilities	(271)	(61)
Amounts owed to credit institutions	(119)	(60)
Financial liabilities from the issuance of negotiable obligations and securities	(152)	(1)
Net financial debt	(588)	(523)

Free Cash Flow

- Definition/Conciliation: These are the funds generated by the Group before payment of dividends, net financial investments and other similar amounts, and investment in treasury stock (see note 2. Statement of Financial Position and Cash Flow Statement).

- Explanation of use: It is the liquidity originating in the operations of the Group's business that is available to fund providers (shareholders and financial creditors) once the investment needs of the Parent Company have been met. It is an indicator that investors use for the valuation of companies.

- Consistency of the criteria used: There is no change of criteria with respect to the criteria used in the previous year.

Margen de Contribución

- Definition: It is the difference between sales and the direct and indirect costs of the Group's different segments or business units. The direct costs are those directly attributable to the sales recognized in a specific period and include the cost of internal or subcontracted resources used in the projects, as well as any incurred costs which are necessary for the development and completion of a project: cost of materials, project trip expenses, etc. On the other hand, the indirect costs are those that, although connected to a Group segment or business unit, are not directly attributable to chargeable projects or to sales posted in a particular period. Indirect costs include, among other things, commercial costs, costs of quotation preparation, the cost of management of a particular segment, etc. The contribution margin does not take into account the corporate costs, because they are costs not directly attributable to a specific segment or business.
  This parameter could also be calculated starting from the operating profit and then adding corporate costs (rentals, core staff, general services, etc.), impairments and provisions.

- Explanation of use: The contribution margin measures the operating profitability of a specific segment or business unit of the Group without taking into account the corporate costs, as they are costs not directly attributable to a specific segment or business.

- In addition, in order to facilitate the comparison between segments with different relative weight in the Group's total sales, the sales contribution margin ratio of a certain segment or business unit is used, which is interpreted as the contribution margin for each euro of sales of a specific segment.

MANAGEMENT REPORT FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

- Consistency of the criteria used: There is no change of criteria with respect to the criteria used in the previous year.

Order intake

- Definition: This is the amount of contracts won over the course of a given period. The order intake amount must not be confused with the income or net turnover, since the amount of a contract won in a specific year (and that computes as order intake for that year) can run over the course of several years.
- Explanation of use: In the case of the amount of contracts won in a given year, the order intake volume is an indicator of the future evolution of the Group's business.
- Consistency of the criteria used: There is no change of criteria with respect to the criteria used in the previous year.

Backlog

- Definition: It is the amount of the accumulated order intake less the sales executed plus/minus the adjustments by exchange rate and by renegotiation of contracts, among other things. It is the amount of the pending sale until completion of the project to complete the order intake volume.
- Explanation of use: In the case of the amount of contracts won pending execution, the order intake volume is an indicator of the future evolution of the Group's business.
- Consistency of the criteria used: There is no change of criteria with respect to the criteria used in the previous year

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Listed Companies

Issuer's identification data:	Indra
Year ended:	31 December, 2017
CIF (Tax Id. No.):	A-28599033
Company name:	Indra Sistemas, S.A.
Registered Office:	Avenida Bruselas, 35, Alcobendas, Madrid

THIS DOCUMENT CONTAINS THE ANNUAL CORPORATE GOVERNANCE REPORT SUBMITTED TO THE Comisión Nacional del Mercado de Valores ("SPANISH SECURITIES MARKET COMMISSION" or "CNMV") PURSUANT TO THE FORM PRESCRIBED BY THE CNMV; ADDITIONALLY, THIS REPORT CONTAINS ALL COMMENTARIES AND NOTES FOR EACH SECTION TO FACILITATE ITS UNDERSTANDING.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

A. OWNERSHIP STRUCTURE

A.1. Complete the table below with details of the capital stock of the Company:

DATE OF LAST	SHARE CAPITAL	NUMBER OF SHARES	NUMBER OF VOTING
18 May 2017	35,330,880.40	176,654,402	176,654,402

Please indicate whether there are different classes of shares with different associated rights:

Yes ☐ No ☑

CLASS	NUMBER OF SHARES	PAR VALUE	NUMBER OF VOTES	ASSOCIATED RIGHTS
-	-	-	-	-

A.2. Please provide details of the Company's significant direct and indirect Shareholders at year end, excluding any Directors:

NAME OF SHAREHOLDER	DIRECT VOTING RIGHTS	INDIRECT VOTING RIGHTS		% OF TOTAL VOTING RIGHTS
		NAME OF SHAREHOLDER WITH DIRECT RIGHTS	NUMBER OF VOTES	
Sociedad Estatal de Participaciones Industriales, S.A.	33,057,734		0	18.71
Corporación Financiera Alba, S.A.	18,587,155		0	10.52
FMR LLC (1)	0	FMR CO., INC	15,134,382	8.57
T. Rowe Price Associates, INC	0	T. Rowe Price International LTD	8,956,819	5.07
Allianz Global Investors Gmbh (2)	0	Investment funds managed by Allianz Global Investors Gmbh	5,331,124	3.02
Schroders PLC	0	SCHRODERS INVESTMENT MANAGEMENT LIMITED	5,655,181	3.20
Norges Bank (3)	5,251,851		0	2.97

(1) Additionally, Shareholder FMR LLCC has voting rights amounting to 0.791% arising from financial instruments.

(2) Additionally, Shareholder Allianz Global Investors Gmbh has voting rights amounting to 0.399% arising from financial instruments.

(3) Additionally, Shareholder Norges Bank has voting rights amounting to 1.082% arising from financial instruments.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Please indicate significant changes in company shareholder (hereinafter “Shareholder”) composition during the fiscal year:

NAME OF SHAREHOLDER	DATE OF TRANSACTION	DESCRIPTION
Norges Bank	02 Jan 2017	Dropped below 3% equity interest
Norges Bank	03 Jan 2017	Surpassed 3% equity interest
Norges Bank	05 Jan 2017	Dropped below 3% equity interest
Schroders PLC	10 Jan 2017	Surpassed 3% equity interest
Schroders International Selection Fund	10 Jan 2017	Surpassed 3% equity interest
Norges Bank	19 Jan 2017	Surpassed 3% equity interest
Norges Bank	23 Jan 2017	Dropped below 3% equity interest
Norges Bank	27 Jan 2017	Surpassed 3% equity interest
Norges Bank	30 Jan 2017	Dropped below 3% equity interest
Norges Bank	31 Jan 2017	Surpassed 3% equity interest
Norges Bank	06 Feb 2017	Dropped below 3% equity interest
Norges Bank	22 Feb 2017	Surpassed 3% equity interest
Norges Bank	23 Feb 2017	Dropped below 3% equity interest
Orbis Allan Gray Limited	24 Feb2017	Dropped below 1% equity interest
Norges Bank	13 March 2017	Surpassed 3% equity interest
Norges Bank	14 March 2017	Dropped below 2% equity interest
Norges Bank	15 March 2017	Surpassed 3% equity interest
Norges Bank	21 March 2017	Dropped below 3% equity interest

NAME OF SHAREHOLDER	DATE OF TRANSACTION	DESCRIPTION
Sociedad Estatal de Participaciones Industriales	25 April 2017	Dropped below 20% equity interest
FMR LLC	28 April 2017	Dropped below 10% equity interest
T. Rowe Price International Funds, INC	30 May 2017	Surpassed 3% equity interest
Norges Bank	30 June 2017	Surpassed 3% equity interest
Norges Bank	20 July 2017	Dropped below 3% equity interest
Norges Bank	21 July 2017	Surpassed 3% equity interest
Allianz Global Investors Gmbh	28 Sept 2017	Dropped below 3% equity interest
T. Rowe Price Associates, INC	13 Dec 2017	Surpassed 5% equity interest
Norges Bank	13 Dec 2017	Dropped below 3% equity interest

In addition, significant Shareholder Corporación Financiera Alba reported on 6 March 2017 that it had taken over its wholly owned subsidiary Alba Participaciones, S.A., prior direct owner of equity in Indra Sistemas, S.A., and Corporación Financiera Alba, S.A. became the direct owner of said equity interest.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

A.3. In the following tables, list the members of the Board of Directors (hereinafter "Directors") with voting rights in the company:

NAME OF DIRECTOR	NUMBER OF DIRECT VOTES	NUMBER OF INDIRECT VOTES	PERCENTAGE OF VOTING RIGHTS
Fernando Abril-Martorell Hernández	66,006	0	0.037
Daniel García-Pita Pemán	69,089	12,600	0.046
Juan Carlos Aparicio Pérez	15,280	0	0.009
Enrique de Leyva Pérez	10,619	0	0.006
Silvia Iranzo Gutiérrez	853	0	0.000
Luis Lada Díaz	39,417	0	0.022
Juan March de la Lastra	33,716	0	0.019
Santos Martínez-Conde Gutierrez-Barquín	24,148	0	0.014
Adolfo Menéndez Menéndez	16,756	0	0.009
María Rotondo Urcola	959	0	0.001
Cristina Ruiz Ortega	11,945	0	0.007
Ignacio Santillana del Barrio	30,954	0	0.018
Alberto Terol Esteban	36,634	0	0.021
Total percentage of voting rights held by the Board of Directors			0.209

Please complete the following tables with details regarding members of the company's Board of Directors who own company share options:

NAME OF DIRECTOR	NUMBER OF DIRECT RIGHTS	INDIRECT RIGHTS		NUMBER OF EQUIVALENT SHARES	PERCENTAGE OF TOTAL VOTING RIGHTS
		NAME OF SHAREHOLDER WITH DIRECT RIGHTS	NUMBER OF VOTES		
-	-	-	-	-	-

A.4. If applicable, indicate any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business:

NAME OF RELATED PARTY	NATURE OF RELATIONSHIP	BRIEF DESCRIPTION
-	-	-

A.5. If applicable, indicate any commercial, contractual or corporate relationships that exist between significant shareholders and the company and/or group, unless they are insignificant or arise in the ordinary course of business:

NAME OF RELATED PARTY	NATURE OF RELATIONSHIP	BRIEF DESCRIPTION
-	-	-

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

A.6. Indicate whether the Company has been notified of any shareholder agreements that may affect it, in accordance with Articles 530 and 531 of the Ley de Sociedades de Capital ("Corporate Enterprises Act" or "LSC"). If so, describe these agreements and list the party shareholders:

Yes ☐ No ☑

PARTIES TO THE SHAREHOLDER AGREEMENT	PERCENTAGE OF AFFECTED SHARES	BRIEF DESCRIPTION OF THE AGREEMENT
-	-	-

IIndicate whether the Company is aware of any coordinated actions among its Shareholders. If so, provide a brief description:

Yes ☐ No ☑

PARTIES TO THE COORDINATED ACT	PERCENTAGE OF AFFECTED SHARES	BRIEF DESCRIPTION OF THE AGREEMENT
-	-	-

If any of the aforementioned agreements or coordinated acts have been modified or terminated during the year, please specify expressly:

A.7. Indicate whether any individual or company exercises or may exercise control over the Company in accordance with Article 4 of the Ley de Mercados de Valores ("Spanish Securities Exchange Act" or "LMV"). If so, please identify them:

Yes ☐ No ☑

NAME OF INDIVIDUAL OR COMPANY
-

REMARKS
-

A.8. Complete the following table with details of the company's treasury shares:

At the close of the fiscal year:

NUMBER OF DIRECT SHARES	NUMBER OF INDIRECT SHARES (*)	TOTAL PERCENTAGE OF SHARE CAPITAL
813,376	--	0.46

* Result for treasury share transactions in fiscal 2017 was a profit of 269m €.

(*) through:

NAME OF DIRECT SHAREHOLDER	NUMBER OF DIRECT SHARES
-	-
Total:	**-**

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Explain any significant changes during the fiscal year, as described in Royal Decree 1362/2007:

EXPLAIN SIGNIFICANT CHANGES
06 Feb 2017- 1,670,481 shares acquired, 1.018% capital stock. 24 Apr 2017- 1,209,530 shares acquired, 0.737% capital stock, update of issuer's voting rights. 23 May 2017-1,539,376 shares acquired, 0.873% capital stock, update of issuer's voting rights. 05 July 2017- 1,820,614 shares acquired, 1.031% capital stock. 28 Aug 2017- 1,774,099 shares acquired, 1.004% capital stock. 31 Oct 2017- 1,812,059 shares acquired, 1.026% capital stock. 18 Dec 2017- 1,787,826 shares acquired, 1.012% capital stock.

A.9. Provide a detailed description of the conditions and terms of the authority given to the Board of Directors (hereinafter, the "Board") at the Annual Shareholders Meeting (hereinafter, "Meeting") to issue, repurchase, or alienate treasury shares:

At the Meeting held on 25 June 2015, under Item 6 of the agenda and with a favourable vote of 99.87% of the capital present, the Shareholders agreed:

"To authorise the Board of Directors, in accordance with the provisions of Articles 146 and 509 of the LSC, to buy back the Company's own shares (as well as pre-emptive rights to the same) in one or more tranches, either directly or through subsidiaries, by any means allowed by law, with the express authority to sell or cancel them.

This authority shall be subject to the following conditions:

(i) The nominal value of any treasury shares acquired under this authority, when added to the treasury shares already possessed by the purchasing entity and its affiliates, may not exceed 10% of nominal capital.

(ii) The minimum acquisition price or the minimum amount of consideration to be paid shall be the par value of the shares acquired and the maximum acquisition price or the maximum amount of consideration to be paid shall be listed price of the acquired shares on a regulated secondary market at the time of acquisition.

(iii) Acquisition of shares must not result in a reduction of equity below the sum of the value of treasury shares plus reserves which are unavailable either by applicable law or by the Bylaws.

It is specifically provided that the acquired shares or option rights to those shares may be subsequently granted to Directors, management personnel and employees of the Company.

This authorisation is valid for 5 years as of the date of approval and supersedes in all respects the previous authorisation approved at the Annual Shareholders Meeting held on 24 June 2010."

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

A.9.bis Estimated Working Capital

	%
ESTIMATED WORKING CAPITAL	45.02%

A.10. Indicate whether there are any restrictions placed on transfer of shares and/or any restrictions on voting rights. In particular, indicate the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market.

Yes ☐ No ☑

DESCRIPTION OF RESTRICTIONS
-

The Bylaws contain no restrictions on transfer of shares and contain no restrictions on voting rights.

The Company is aware that on 17 May 2017 the Ministerio de Economía notified a foreign investor of the need to seek regulatory authorisation due to significant capital participation in Indra in accordance with Real Decreto 664/1999 regarding foreign investors, which requires that such authorisation be obtained by non-residents in order to acquire significant holdings or that holding which allow the investor to directly or indirectly be part of the governing body of a listed company which engages in business related to National Defence. Said authorization was sought and granted pursuant to a resolution of the Spanish Council of Ministers (Consejo de Ministros) on 23 February 2018.

A.11. Indicate if the Shareholders have resolved at a Meeting to adopt measures to neutralise a take-over bid pursuant to the provisions of Law 6/2007:

Yes ☐ No ☑

If so, please explain the measures approved and the terms under which such limitations would cease to apply:

A.12. Indicate if the company has issued shares which are not traded on an EU regulated market.

Yes* ☑ No ☐

In October 2013 and September 2016 the Company issued bonds in the amount of 250 M€ each, convertible and/or exchangeable for Indra common shares but excluding preferential shareholder subscription rights and with maturity dates of 17 October 2018 and 7 October 2023, respectively. Said bonds are listed on an unregulated market (multilateral trading facility) called Freiverkehr on the Frankfurt Stock Exchange.

For more information regarding bond issuances, see the Reports of Material Fact submitted to the CNMV on 8 October 2013 and 28 September 2016

If so, please list each type of share and the rights and obligations conferred on each.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

B. ANNUAL SHAREHOLDERS' MEETING

B.1. Indicate whether there are any differences between the quora established by the LSC for Annual Meetings and those set by the company and if so, describe them in detail:

Yes ☐ No ☑

	% QUORUM DIFFERENT FROM THAT CONTAINED IN ARTICLE 193 LSC FOR GENERAL MATTERS	% QUORUM DIFFERENT FROM THAT CONTAINED IN ARTICLE 194 LSC FOR SPECIAL RESOLUTIONS
Quorum required on 1st call		-
Quorum required on 2nd call	-	-

DESCRIPTION OF DIFFERENCES
-

B.2. Indicate whether there are any differences in the company's manner of adopting corporate resolutions and the manner for adopting corporate resolutions described by the LSC and, if so, explain:

Yes ☐ No ☑

Describe how it is different from that contained in the LSC.

	SUPERMAJORITY DIFFERENT FROM THAT ESTABLISHED IN ARTICLE 201.2 LSC FOR ARTICLE 194.1 LSC MATTERS	OTHER MATTERS REQUIRING A SUPERMAJORITY
% established by the company for adoption of resolutions	-	-

DESCRIBE THE DIFFERENCES
-

B.3. Indicate the rules for amending the Company's bylaws. In particular, indicate the majorities required for amendment of the bylaws and any provisions in place to protect shareholders' rights in the event of amendment of the bylaws.

Shareholders at Meetings have the right to decide all matters attributed to them by law or the Bylaws, in particular amendment of the Bylaws, except where, pursuant to applicable law, this power may be delegated to the Board of Directors.

The Bylaws do not contain any provisions regarding adoption of resolutions amending the Bylaws in conflict with that contained in the current version of the LSC. Specifically, in accordance with Article 194 LSC, in order for the Bylaws to be validly amended at either an Annual or at an Extraordinary Meeting, at first call there must be agreement of Shareholders present either in person or by proxy that represents at least 50% of subscribed capital with voting rights; at second call 25% is sufficient. Additionally, in accordance with Article 201 LSC, in order to modify the Bylaws a two thirds majority of the voting capital in attendance must vote in favour whenever attendance at second call is between 25% and 50%.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

B.4. Give details of attendance at annual shareholder meetings held during the year of this report and the previous year:

DATE OF ANNUAL MEETING	ATTENDANCE DATA				
	% PHYSICALLY PRESENT	% PRESENT BY PROXY	% REMOTE VOTING		TOTAL
			ELECTRONIC VOTING	OTHER	
29 June 2017	0.52	51.86	0.03	19.21	71.62
20 Feb 2017	0.43		0.01	21.30	70.49
30 June 2016	0.51		0.01	0.65	69.45

B.5. Indicate if the bylaws contain any restrictions requiring a minimum number of shares to attend annual shareholder meetings:

Yes ☐ No ☑

NUMBER OF SHARES REQUIRED TO ATTEND ANNUAL MEETINGS	-

B.6. Repealed

B.7. State the address and manner of access to the page on the Company website where one may find information on corporate governance and other information regarding annual shareholder meetings that must be made available to shareholders through the company website.

The URL of the Company website is www.indracompany.com.

Under the "Accionistas e Inversores" tab ["Investor relations" on the English site] one may find, among other hot buttons, "Gobierno Corporativo" ["Corporate governance"] under which appears "Junta General de Accionistas" ["General Shareholders Meeting"] in a submenu.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

C. COMPANY ADMINISTRATIVE STRUCTURE

C.1. Board of Directors

C.1.1. Maximum and minimum number of Directors established in the Bylaws:

MAXIMUM NUMBER OF DIRECTORS	15
MINIMUM NUMBER OF DIRECTORS	8

C.1.2. Please complete the following table regarding Directors:

NAME OF DIRECTOR	NATURAL PERSON REP	DIRECTOR CATEGORY	POSITION ON THE BOARD	DATE FIRST NAMED TO BOARD	LAST RE-ELECTION DATE	METHOD OF SELECTION TO BOARD
Fernando Abril-Martorell Hernández	-	Executive	Chairman	29 Jan 2015	25 June 2015	Annual Shareholders Meeting
Daniel García-Pita Pemán	-	Independent	Vice-chair	25 June 2009	25 June 2015	Annual Shareholders Meeting
Juan Carlos Aparicio Pérez	-	Dominical	Director	26 Sept 2013	29 June 2017	Annual Shareholders Meeting
Enrique de Leyva Pérez	-	Independent	Director	30 April 2015	25 JunE 2015	Annual Shareholders Meeting
Silvia Iranzo Gutiérrez	-	Independent	Director	29 June 2017	29 June 2017	Annual Shareholders Meeting
Luis Lada Díaz	-	Independent	Director	21 June 2007	30 June 2016	Annual Shareholders Meeting
Juan March de la Lastra	-	Proprietary	Director	29 July 2009	30 June 2016	Annual Shareholders Meeting
Santos Martínez-Conde Gutiérrez-Barquin	-	Proprietary	Director	27 June 2013	30 June 2016	Annual Shareholders Meeting
Adolfo Menéndez Menéndez	-	Proprietary	Director	26 Sept 2013	29 June 2017	Annual Shareholders Meeting
María Rotondo Urcola	-	Independent	Director	29 June 2017	29 June 2017	Annual Shareholders Meeting
Cristina Ruiz Ortega	-	Executive	Director	21 Dec 2017	21 Dec 2017	Board of Directors through cooptation
Ignacio Santillana del Barrio	-	Independent	Director	21 June 2011	29 June 2017	Annual Shareholders Meeting
Alberto Terol Esteban	-	Independent	Director / Lead Independent Director	24 June 2010	26 June 2014	Annual Shareholders Meeting

TOTAL NUMBER OF DIRECTORS	13

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Indicate if any Directors have left the Board during the period subject to this report:

NAME OF DIRECTOR	DIRECTOR TYPE AT TIME OF LEAVING	DATE DIRECTOR LEFT
Isabel Aguilera Navarro	Independent	29 June 2017
Rosa Sugrañes Arimany	Independent	29 June 2017
Javier de Andrés González	Executive	21 Dec 2017

C.1.3. Complete the following tables regarding the members of the Board and their categories:

Executive Directors

DIRECTOR NAME	POSITION WITH THE COMPANY
Fernando Abril-Martorell Hernández	Chairman of the Board
Cristina Ruiz Ortega	Managing Director for IT

TOTAL NUMBER OF EXECUTIVE DIRECTORS	2
PERCENTAGE OF BOARD	15.38

Proprietary Directors

NAME OF DIRECTOR	NAME OF SIGNIFICANT
Mr. Juan March de la Lastra	Corporación Financiera Alba, S.A.
Santos Martínez-Conde Gutiérrez-Barquín	Corporación Financiera Alba, S.A.
Juan Carlos Aparicio Pérez Pérez	Sociedad Estatal de Participaciones Industriales (SEPI)
Adolfo Menéndez Menéndez	Sociedad Estatal de Participaciones Industriales (SEPI)

TOTAL NUMBER OF PROPRIETARY DIRECTORS	4
PERCENTAGE OF THE BOARD	30.76

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Independent Directors

NAME OF DIRECTOR	PROFILE
Daniel García-Pita Pemán	Born in 1947. Lawyer. He has spent his entire career at the law firm of J & A Garrigues, which he joined in 1969 and where he was Managing Partner. He has served as Professor of Business Law at the Universidad Central de Madrid and as a member of the Governing Board of the Madrid Bar Association. Legal Counsel to numerous organisations and member of the Board of important listed companies, Indra among them, where he was non-member Secretary until 2009. He was Chairman of the Board of Andbank from 2015 to 2017 and member of the Board of Directors of Aegón España, S.A. until December 2017. Currently he is a director at DTS, Distribuidora de Televisión Digital
Enrique de Leyva Pérez	Born in Sevilla 1959. Graduated in Civil Engineering by the Polytechnic University of Madrid and MBA by the Columbia University with double major in Accounting and Finance. He is currently founder of the Magnum Group and Chairman and director of a variety of companies of the group (among others, Chairman of Grupo Itacare). He is member of the Advisory Board of Abante Asesores and Ambienta Sgr, S.p.A. He has developed his professional carrier in Unión Fenosa, (1983-1986), McKinsey & Company, Inc. (1986-2006) where he chaired the Spanish subsidiary and Magnum Industrial Partners, S.L. where is partner since 2006. He has been Chairman of the Geriatros Group and Pretersa-Prenavisa, Chairman of Grupo Nace Schools, member of the Board of Centro Médico Teknon, S.L., Iberwind and Bio Oils, S.L., among other companies.
Silvia Iranzo Gutiérrez	Born in 1956. Degree in Economics from the Universidad Autónoma de Madrid and graduate of the IESE Business School (Executive Management Program for Directors at the Spanish Central Bank). Member of the Cuerpo Superior de Técnicos Comerciales y Economistas del Estado within the Spanish Department of Commerce and member of the Grupo Directivo at the Spanish Central Bank. Earlier, she was Spanish ambassador to Belgium from 2010 to 2012, Secretary of State for Commerce from 2008 to 2010, and head of Country Risk in the Department of International Affairs for the Spanish Central Bank from 2005 to 2008. Additionally, she was a member of the Board of Directors of Tecnocom from 2016 to 2017; of Telefónica Internacional from 1992 to 1994; of Naviera Mallorquina from 1992 to 1994; of Cabitel from 1991 to 1992; of Banco Exterior UK from 1990 to 1992; and Eria from 1990 to 1992. Recipient of the Gran Cruz de la Orden del Mérito Civil. Professor of Economics at CUNEF (Colegio Universitario de Estudios Financieros) and at IEB (Instituto de Estudios Bursátiles) in the Department of Business Administration and the Masters Program at Bolsa. She is a member of the Board of Directors of Instituto de Consejeros y Administradores (IC-A) as well as a member of the editorial board at the magazine Economistas.
Luis Lada Díaz	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 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 independent director and member of the audit committee at ENCE Energía y Celulosa, S.A., non-executive chairman of Banco Inversis, and an advisor to Assia Inc
María Rotondo Urcola	She has spent most of her career at Grupo Santander (1990-2016) where for the last ten years she was in charge of Global Communications, Media and Technology, leading important strategic transactions in the sector such as the Orange-Jazztel tender offer, the listing Telesites on the Mexican stock exchange, and others. For 15 years prior to that, she was an investment analyst for Santander SVB, rising to the post of Director of Analysis, Europe. She also worked for two years in New York at the Spanish Chamber of Commerce as a market analyst and at Extebank as a risk analyst. From March until May 2017 she worked at Deloitte Financial Advisory, a company within the Deloitte Group, in the Technology, Media and Telecommunications practice as Managing Director, rendering advice on Mergers and Acquisitions, Equity Capital Markets, Restructuring and Forensics. She is member of the Advisory Board for the Transformation with Purpose Fellowship at IE University and for Hotelab. She is a professor at the Instituto de Consejeros y Administradores (ICA) and BME (Bolsas y Mercados). She also performs strategic advisory work..
Ignacio Santillana del Barrio	Born in 1948. Ph.D 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 Inovación 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.
Alberto Terol Esteban	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. 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 Andersen Worldwide Executive Committee. He was also a board member of the Legal and Tax practice for Arthur Anderson. 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. Additionally, Mr. Terol served as managing director of worldwide Legal and Tax practice. He has also been International Senior Advisor for BNP Paribas. Currently he is Chairman and CEO of several family businesses, Independent Director at International Airlines Group, S.A., where he is a member of the Audit Committee and the Compensation Committee, member of the Board of Directors and Chairman of the Oversight Committee at Senvion Gmbh, member of the board at Broseta Abogados, member of the Board of Directors and Chairman of the Audit Committee at Varma, S.A. and a member of the Board of Directors at Schindler España, S.A.

NUMBER OF INDEPENDENT DIRECTORS	7	PERCENTAGE OF THE BOARD	53.84

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Indicate whether any Independent Director receives from the Company or any company in the group any amount or benefit other than compensation as a Director, or has or has had a business relationship with the Company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company which has or has had such a relationship.

If such is the case, include a statement by the board explaining why it believes that the Director in question can perform his or her duties as an independent director.

NAME OF THE DIRECTOR	DESCRIPTION OF THE RELATIONSHIP	STATEMENT OF THE BOARD
-	-	-

Other Outside Directors

Indicate the reasons why these Directors are considered neither Proprietary nor Independent, and detail their ties with the Company or its management or shareholders:

NAME OF DIRECTOR	REASON	COMPANY, DIRECTOR OR SHAREHOLDER TO WHOM THE DIRECTOR IS CONNECTED
-	-	-

TOTAL NUMBER OF OTHER OUTSIDE DIRECTORS	-
PERCENTAGE OF THE BOARD	-

Indicate any changes in status that have occurred during the period for each Director:

NAME OF DIRECTOR	DATE OF CHANGE	PRIOR STATUS	CURRENT STATUS
-	-	-	-

C.1.4. Complete the following table with information relating to the number of female Directors at the close of the past 4 fiscal years, as well as the category of each.

	NUMBER OF FEMALE DIRECTORS				% SOBRE EL TOTAL DE CONSEJEROS DE CADA CATEGORÍA			
	Fiscal year t	Fiscal year T-1	Fiscal year T-2	Fiscal year T-3	Fiscal year t	Fiscal year T-1	Fiscal year T-2	Fiscal year T-3
Executive	1	0	0	0	50	0	0	0
Proprietary	0	0	0	0	0	0	0	0
Independent	2	2	2	2	28.57	28.57	28.57	33.33
Other Outside	0	0	0	1	0	0	0	100
Total	3	2	2	3	23.08	15.38	15.38	23.08

C.1.5. Describe the means, if any, which have been adopted in order to attract a number of women to the Board of Directors which will permit balanced membership of men and women.

Description of Means:

The Policy for Selection of Directors approved by the Board has as its goal the achievement by the year 2020 of a number of female members that represents, at least, thirty percent of the total membership of the Board of Directors. Additionally, the Board Rules of the Company give the Nomination, Compensation and Corporate Governance Committee in Article 19.4 a) the task of annual verification of compliance with said policy.

With respect to measures taken during the fiscal year to encourage gender diversity, it is important to recall that in June 2017 the terms of Independent Directors Isabel Aguilera and Rosa Sugrañes came to an end. The Nomination, Compensation and Corporate Governance Committee engaged the consultancy Spencer Stuart to search for candidates who fit the profile defined by the Company, preferably women. After analysis of the profiles, the Nomination, Compensation and Corporate Governance Committee resolved to propose nomination of Ms. Iranzo and Ms. Rotondo, whose knowledge, skills and experience fulfil the requirements established in the Director Selection Policy for membership on the Board, thus maintaining the number of female Directors at two.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Additionally, in December 2017 the Board resolved, after a favourable report from the Nomination, Compensation and Corporate Governance Committee, to change the management structure of the Company consistent with the Company reorganization plan contained in the 2018-2020 Strategic Plan, which anticipates the incorporation of all IT businesses into a new fully owned subsidiary of Indra.

This change in management structure meant elimination of the post of COO, which led to the departure of Mr. Javier de Andrés from the Company and appointment by co-option of Ms. Ruiz Ortega as Executive Director in order to fill the post left vacant by the departure of Mr. De Andrés, raising with this appointment the number of female Directors to three.
C.1.6. Describe the measures, if any, agreed upon by the nomination committed to ensure that selection procedures do not contain hidden biases which impede the selection of female Directors and that the Company deliberately seeks and includes women who meet the target professional profile among potential candidates:

<u>Explanation of Measures</u>

Article 20.3 of the Board Rules establishes that any individual proposed for appointment to the Board must be of good personal and professional reputation, sufficiently capable of working with dedication and have no interests that are incompatible with the position involved.

Furthermore, internal operating rules of the Company provide that the Board and the Nomination, Compensation and Corporate Governance Committee must take particular care to apply criteria and policies intended to increase gender diversity on the Board during the process of selecting individuals to become Directors. They have done so during successive membership turnover in the past few years, it being with Independent Directors and other Outside Directors that the Board and the Nomination, Compensation and Corporate Governance Committee have the most power to make changes, as they have the ability to consider a much larger number of potential candidates for the position of Director.

As already mentioned in the section above, upon expiration of the terms of Independent Directors Isabel Aguilera and Rosa Sugrañes in 2017 the Nomination, Compensation and Corporate Governance Committee engaged the consultancy Spencer Stuart to search for candidates to replace them with other Independent Directors. During that search, they were asked expressly to take into account the objective of the Nomination, Compensation and Corporate Governance Committee and the Board to actively encourage selection of qualified women. The Nomination, Compensation and Corporate Governance Committee analysed an extensive list of candidates and resolved to propose to the Board nomination of Ms. Iranzo and Ms. Rotondo, whose knowledge, skills and experience fulfil the requirements established in the Director Selection Policy for membership on the Board.

The report issued by the Nomination, Compensation and Corporate Governance Committee regarding the proposal for re-election and nomination of Directors was published on the corporate website upon call of Meetings so that each Shareholder may be aware of the current policy and selection procedure for Directors and may verify that it is consistent with best practices in Corporate Governance.

Additionally, after the departure of the prior COO of the Company, Mr. De Andrés, the Nomination, Compensation and Corporate Governance Committee issued a report favourable to appointment of Ms. Ruiz Ortega as Executive Director by co-option, as her knowledge, skills and experience fulfil the requirements established in the Director Selection Policy for membership on the Board.

The three current female Directors account for 23.08% of the total number of Directors; Ms Iranzo and Ms. Rotondo represent 25.87% of Independent Directors and Ms. Ruiz represents 50% of the Executive Directors.

As for Proprietary Directors, the Board of Directors and the Nomination, Compensation and Corporate Governance Committee can only recommend that Shareholders consider assigning women to positions as Directors in representation of their equity interest, although this depends upon women holding top-level positions in their respective organisations, as it is in the interest of the Company that Proprietary Directors be selected from the highest levels of its Shareholders' organisations.

In the event that there are few or no female Directors in spite of any measures adopted, please explain the reasons that justify such a situation:

EXPLANATION OF REASONS
-

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

C.1.6. bis. Describe the conclusions of the nomination committee regarding verification of compliance with the selection policy for directors; in particular, as it relates to the objective of achieving the objective that by the year 2020 the number of female board members represents at least 30% of the total membership of the board of directors:

As mentioned in the preceding section, the Board of Directors and the Nomination, Compensation and Corporate Governance Committee have been careful to apply criteria and policies designed to promote gender diversity among board members in their selection of persons to take on that role. The Nomination, Compensation and Corporate Governance Committee concluded that the Company is in compliance with the Selection Policy for Directors and applied it properly in producing nominees during fiscal 2017.

The Board, upon proposal by the Nomination, Compensation and Corporate Governance Committee approved a new criterion in 2016 of mandatory rotation for those Independent Directors who have served for three terms and to publish it at the next Annual Shareholders Meeting. This new criterion will accelerate turnover on the Board and will help achieve 30% female membership on the Board of Directors by 2020.

C.1.7. Explain the form of representation on the Board of shareholders with significant holdings.

The following are Directors who during fiscal 2017 were Board members in representation of the interests of significant shareholders:

- Mr. Juan March de la Lastra, representing the proprietary interests of Corporación Financiera Alba, S.A.
- Mr. Santos Martínez-Conde Gutiérrez-Barquín, representing the proprietary interests of Corporación Financiera Alba, S.A.
- Mr. Juan Carlos Aparicio Pérez, representing the proprietary interests of SEPI.
- Mr. Adolfo Menéndez Menéndez, representing the proprietary interests of SEPI.

C.1.8. If applicable, please explain the reasons for the appointment of any Proprietary Directors at the request of shareholders with less than a 3% equity interest.

NAME OF SHAREHOLDER	REASON
-	-

Indicate whether the Board has failed to meet any formal requests for membership from Shareholders whose equity interest is equal to or higher than that of others at whose request proprietary directors have been appointed. If this is the case, please explain why the aforementioned requests were not met.

Yes ☐ No ☑

NAME OF SHAREHOLDER	EXPLANATION
-	-

C.1.9. Indicate whether any directors have left their posts before completion of their terms, whether and by what means the departing director provided the Board with an explanation for his or her departure and, if these reasons were provided in writing to the entire Board, specify the reasons given:

NAME OF DIRECTOR	REASON FOR DEPARTURE
Javier de Andrés	Revocation of authority delegated to him by the Board of Directors

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

C.1.10. Identify the powers delegated to directors, if any:

NAME OF DIRECTOR	BRIEF DESCRIPTION
Fernando Abril-Martorell Hernández Hernández	All the powers of the Board except those that may not be delegated by law

C.1.11. Identify any members of the Board who are also directors or officers in other companies in the group of which the listed company is a member:

NAME OF DIRECTOR	NAME OF GROUP MEMBER	POSITION	DOES THE DIRECTOR HAVE EXECUTIVE POWERS?
Cristina Ruiz Ortega	Indra Business Consulting, S.L.U.	Joint and several director	No

C.1.12. List any directors of your company who are members of the Board of Directors of other companies listed on official securities markets other than group companies, and have communicated that status to the company:

NAME OF DIRECTOR	NAME OF LISTED COMPANY	POSITION
Fernando Abril-Martorell Hernández	Ence Energía y Celulosa, S.A.	Director
Luis Lada Díaz	Ence Energía y Celulosa, S.A.	Director
Juan March de la Lastra	Corporación Financiera Alba, S.A.	Vice Chair
	Viscofan, S.A.	Director
Santos Martínez-Conde Gutiérrez-Barquín	Corporación Financiera Alba, S.A.	CEO
	Acerinox, S.A.	Director
	Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.	Director
Albert Terol Esteban	International Consolidated Airlines Group, S.A.	Director
	Senvion S.A.	Member of the Supervisory Board

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

C.1.13. Indicate whether the rules governing the Board limits the number of boards on which its Directors may hold seats, providing details if applicable:

Yes ☑ No ☐

Explanation of the rules

Article 33 of the Board Rules establishes that a Director must devote the time and effort necessary to carry out his or her functions adequately. Therefore, Directors must inform the Board of any activities that could significantly affect their dedication to the Company.

So far as the number of other boards to which a Director may belong is concerned, the general rule is that the Director may not belong to so many that it interferes with the Director's dedication to the post of Director at Indra. To that end, the Company's board members are subject to the following general limits: (i) Executive Director of the company may only fill posts on the boards of up to two other listed companies; (ii) non-Executive Director may only fill posts on the boards of up to four other listed companies.

C.1.14. Repealed

C.1.15. Indicate total compensation received by the Board of Directors:

Board compensation (thousands of euros)	12,941 (1)
Amount of vested pension interests for current members (thousands of euros)	1,404 (2)
Amount of vested pension interests for former members (thousands of euros)	0

(1)This amount includes a sum corresponding to Executive Directors' compensation arising from Medium Term Incentives 2015-2017: 7,836m€. Said sum was determined as a function of the list price on 8 March 2018, the date which the Board set for delivery of shares.
(2) This amount corresponds to the balance accumulated as of 31 December 2017 in the Early Retirement and Long Term Savings Plan managed externally by means of an insurance policy, of which the beneficiaries are the Executive Directors.

C.1.16. Identify Senior Management who are not executive directors and their total compensation accrued during the year:

NOMBRE O DENOMINACIÓN SOCIAL	CARGO/S
Berta Barrero Vázquez (1)	Transportation
Eduardo Bonet Sánchez (2)	Transportation
José Cabello Chacón (3)	America and Human Resources
Dolores Sarrión Martínez (4)	Human Resources
Hitesh Chaturvedi	Production and Business Process Outsourcing
Manuel Escalante García (1)	Head of Defence and Security
Carlos Suárez Pérez (4)	Defence and Security
Rafael Gallego Carbonell	Air Traffic Control Europe
Gonzalo Gavín Canti	Air Traffic Control International and Indra Navia
Carlos González Soria	Chief in house Counsel
Javier Lázaro Rodríguez	CFO
Antonio Mora Morando	Control Management, Operations and Processes
José Manuel Pérez-Pujazón Arza	Advisor to the CEO and COO
Luis Permuy Muñoz-Rivero	ASOMAF
Javier Martín García(5)	Tecnocom

(1) Since May 2017
(2) Until April 2017
(3) Head of Human Resources since May 2017
(4) Until May 2017
(5) From May until December 2017

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

TOTAL SENIOR MANAGEMENT COMPENSATION (IN 1000'S OF EUROS)	13,252(1)

(1) This total includes sums paid to Ms. Sarrión and Mr. Martín upon termination of their contractual relationships in accordance with the terms of their respective contracts. Also, the total includes compensation paid under the Medium Term Incentive 2015-2017. This amount was determined as a function of the list price on 8 March 2018, the date the Board of Directors set of delivery of shares.

C.1.17. Identify any members of the board who are also members of the board of directors of significant shareholders and/or entities within the shareholder's group:

NAME OF DIRECTOR	NAME OF SIGNIFICANT SHAREHOLDER	POST
Luis Lada Díaz	Banco Inversis, S.A.(1)	Non-executive Chairman
Mr. Juan March de la Lastra	Corporación Financiera Alba, S.A.	Vice Chairman
	Banca March, S.A.	Chairman
Mr. Santos Martínez-Conde Gutiérrez-Barquín	Corporación Financiera Alba, S.A.	CEO
	Banca March, S.A.	Director
	Artá Capital, S.G.E.I.C., S.A.	Director
	Deyá Capital, S.C.R., S.A.	Chairman
	Deyá Capital IV, S.C.R., S.A.	Chairman
	Artá Partners, S.A.	Chairman

(1) Banco Inversis, S.A. is a wholly owned subsidiary of Banca March, S.A.

Please detail any relevant relationships, other than those presented immediately above, between members of the board of directors and significant shareholders of the Company and/or of companies within the group:

NAME OF ASSOCIATED DIRECTOR	NAME OF ASSOCIATED SIGNIFICANT SHAREHOLDER	DESCRIPTION OF THE RELATIONSHIP
-	-	-

C.1.18.Indicate whether the board rules were amended during the year:

Yes ☐ No ☑

DESCRIPTION OF AMENDMENT
-

C.1.19. Specify the procedures for selection, appointment, re-election, evaluation and removal of Directors. Describe the competent bodies, steps to follow and criteria applied in each procedure.

Selection: Article 20.3 of the Board Rules establishes that any individual proposed for appointment must be of good personal and professional reputation, sufficiently capable of working with dedication, and have no interests that are incompatible with the position involved. This article also provides that the Nomination, Compensation and Corporate Governance Committee must rigorously examine those persons nominated to fill the post of Independent Director.

Article 8 of the Board Rules gives the following qualitative compositional requirements for the Board of Directors:

- That Outside Directors represent a substantially larger component than Executive Directors.
- That in order to establish a balance between Proprietary and Independent Directors, focus should be on the Company shareholder structure, considering the importance of equity stake as well as the degree of permanence and strategic connections between the Company and Shareholders.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

- That the Board, along with the Nomination, Compensation and Corporate Governance Committee, should be especially vigilant that criteria and policies used in the selection of Directors promote gender diversity.

Additionally, in crafting proposals for re-election and appointment of Director that it submits to Meetings, and after a favourable report from the Nomination, Compensation and Corporate Governance Committee, the Board evaluates that the candidates possess sufficient knowledge, experience and ability in the following areas: (i) the sectors in which the Company operates and/or other related sectors or sectors with similar characteristics; (ii) finance, economics and control; (iii) evaluation and management of executive level staff and highly qualified human resources; (iv) the general economic environment and geographic markets most important to the Company; and (v) management and entrepreneurship.

Likewise the Board evaluates the ability to devote the dedication required for fulfilment of the post.

Consistent with the provisions of Recommendation 14 of the Code of Good Governance for Listed Companies, the Board of Directors has approved a Policy for Selection of Directors which contains all of the current criteria and Company procedures in this regard. For the most part this information is already public, having been published in the Annual Corporate Governance Report and in materials supporting proposed resolutions to the Annual Shareholders Meeting relevant to this area. The Policy contains a commitment to diversity from the Board, and states its objective regarding gender diversity that by 2020 the number of female Directors will represent at least 30 percent of the total Board membership. In line with the guiding principles of the Corporate Social Responsibility Policy, the Policy for Selection of Directors promotes application of diversity criteria which include not only the matter of gender, but also knowledge, experience, and age and establishes that policies regarding the process by which candidates for membership on the Board are selected are to be applied so as to avoid implicit biases that may arise from any type of discrimination (religion, ideology, nationality, handicap, etc.).

As regards the measures adopted and the manner in which the aforementioned diversity policies are applied, those are described in Section C.1.5 above. During fiscal 2017 three female Directors were named to the Board who not only added gender diversity, but brought with them the requisite skills and experience.

Appointment and Re-election: As established in Article 21 of the Board Rules, members are nominated, re-elected or ratified by the Shareholders at Meetings or by the Board in application of the provisions set forth in the LSC and the Bylaws.

Proposals for the appointment, re-election and removal of Directors submitted by the Board to Meetings for Shareholder consideration, and any decisions taken by the Board pursuant to its co-opting powers, must be based on a proposal by the Nomination, Compensation and Corporate Governance Committee in the case of Independent Directors and upon proposal by the Board after a report from the Committee in any other cases.

When the Board does not follow the recommendations expressed by the Nomination, Compensation and Corporate Governance Committee, it must explain its reasons and enter them into the record in the minutes.

The criteria applicable to Directors also apply to natural persons representing artificial person Shareholders.

Under Article 20 of the Board Rules, the Board shall present each proposal for the appointment or re-election of its members to the Shareholders at Meetings to vote on separately. Any re-election of Directors shall undergo formal review equal to that applied when appointing new Directors.

The Board approved in 2016 a more restrictive criterion for renewal of Independent Directors than that which the law requires (time limit of twelve years at the post) consisting of not proposing for re-election at the Annual Shareholders Meeting any Independent Director who has served three terms (of three years each).

Evaluation: Pursuant to Article 13 of the Board Rules, after using the report from the Committee as a starting point, the Board performs an annual evaluation of its proceedings and the quality of its work, as well as the work of its committees. Each of these bodies performs its own evaluation and prepares a report on its activities and actions during the year, which is then submitted to the Board.

The evaluation is done externally every 3 years, except for extraordinary circumstances, so for fiscal 2017 the evaluation was done using the internal procedure.

Furthermore, the Board must issue an annual evaluation of the work performed by its Chairman both in this capacity and, separately, as CEO.

Termination: As established in Article 23 of the Board Rules, Directors are relieved of their duties upon removal at a Meeting, or when they announce their resignation from or are fired by the Company.

Should the Board propose that an Independent Director be removed before the end of his or her term, this proposal must be for good cause and be accompanied by a prior report from the Nomination, Compensation, and Corporate Governance Committee.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

C.1.20. Explain how the annual evaluation of the board has given rise to significant changes in its internal organization and to procedures applicable to its activities:

DESCRIPTION OF CHANGES
As indicated in Section C.1.19 above, during fiscal 2017 the Company performed an evaluation of the performance and work quality of the Board and its committees for fiscal 2016. The conclusion of the evaluation was very positive and stated there was no current need to make major changes in internal structure or in procedures applicable to its activities.

C.1.20.2. Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of an external advisor, regarding diversity in its composition and duties, the function and composition of its committees, the performance of the chairman of the board and the chief executive officer of the company, as well as the performance and input from each director.

As described above, the evaluation process carried out in 2017 for fiscal 2016 was performed without the collaboration of external advisors and consisted of completion of an extensive questionnaire with questions regarding the structure, composition and workings of the Board and its Committees, which were evaluated individually by each of the Directors.

The resulting report concluded that regarding its composition and duties the Board of Directors is appropriate in its size and in the professional profiles of its membership, and that the selection process for its members is done in a structured and objective fashion.

As regards the Committees, it was concluded that their structure is appropriate, that they have an important role in corporate governance of the Company, and that they act in an effective manner. It was noted particularly that they perform independently and it was concluded that they provided adequate information to the Board as a whole, providing all of the Directors access to information and apprising them of the activities of the Committees.

Finally, the evaluation concluded that the performance and input of each Director was individually satisfactory, noting particularly the high level of attendance at meetings.

As regards the evaluation of the Chairman of the Board and Chief Executive of the Company, the following aspects were analysed: (i) performance as Chairman of the Board in ensuring in a manner sufficiently differentiated from that as Chief Executive; (ii) performance in ensuring that the Board discharges its duties in an effective manner; (iii) engenderment of active participation by the membership; (iv) attention to Shareholder and investor relations and to information and transparency policies; (v) organization and coordination of the periodic Board evaluations.

The evaluation process for the Chairman of the Board resulted in a very satisfactory assessment of his performance, as reflected in the maximum achievement level received for each of the evaluated aspects.

C.1.20.3 Describe in detail any business relationships which the consultant or any business within its group maintains with the company or any company in its group.

N/A

C.1.21. Indicate the situations in which Directors are required to resign:

a) When circumstances arise which are incompatible with, prohibit, or require resignation from service on the Board in accordance with law.

b) When a Director has seriously breached his or her obligations as a Director, or has committed an act or omission inconsistent with the duties of diligence and responsibility required in order to perform the Director's duties.

c) When the Director cannot maintain the necessary dedication to perform his or her duties effectively.

d) When a Shareholder represented by a Proprietary Director sells its entire equity interest or reduces its interest to a level that requires a decrease in the number of Proprietary Directors representing the Shareholder.

e) Should a change occur in the conditions or circumstances concerning an Independent Director that may strip the Director of independent status.

f) In the event that an Executive Director leaves his management post for any reason when membership on the Board is predicated on the Executive Director's status as a senior manager.

In any event, a Director must inform the Board and, if appropriate, resign under those circumstances which may damage the credit or reputation of the Company and, particularly, must inform the Board of any criminal procedures in which the Director is implicated as well as subsequent proceedings.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Should a Director be formally accused or be subject to the commencement of a criminal procedure of any kind as described under law applicable to companies, the Board of Directors will investigate the case as soon as possible and, given the circumstances, decide whether or not the Director should continue at his or her post. All such matters shall be clearly explained in the Annual Report on Corporate Governance.

In the event that the natural person representative of a director finds himself in any of the situations described above, the artificial person director is to immediately proceed to designate a substitute natural person.

In the event that the director does not present his resignation in the situations described above, the Board will propose his removal at a shareholders meeting.

Once a director, whether by resignation or for any other reason, ceases to serve before the end of his term, he will explain the reasons in a letter sent to the other members of the Board. The reason for termination will be given in the Annual Corporate Governance Report.

C.1.22. Repealed

C.1.23. Are supermajorities other than those established by law required for any specific decision?

Yes ☐ No ☑

If so, please describe any differences:

DESCRIPTION OF DIFFERENCES
-

C.1.24. Explain whether there are any specific requirements, other than those relating to Directors, to be appointed chair of the Board of Directors.

Yes ☐ No ☑

DESCRIPTION OF REQUIREMENTS
-

C.1.25. Please specify whether the chairman has a casting vote:

Yes ☑ No ☐

MATTERS WHERE THE CHAIRMAN HAS A CASTING VOTE
All, except for sessions which, as stipulated in the Board Rules, the Chairman must not attend or in which the Chairman must abstain from voting.

C.1.26. Indicate whether the Bylaws or the Board Rules establish any limit as to the age of Directors:

Yes ☐ No ☑

Age Limit for Chairman ☐

Age Limit for CEO ☐

Age Limit for Directors ☐

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

C.1.27. Indicate whether the Bylaws or the Board Rules establish any term limits for Independent Directors other than that required by law:

Yes ☐ No ☑

TERM LIMIT	-

The Board approved in 2016 a more restrictive criterion for renewal of Independent Directors than that which the law requires (time limit of twelve years) consisting in not proposing for re-election at the Annual Shareholders Meeting any Independent Director who has served three terms (of three years each), so that an Independent Director may be proposed for re-election only twice.

C.1.28. Indicate whether the Bylaws or Board Rules establish specific proxy rules for votes at board meetings, how they are to be delegated and, in particular, the maximum number of delegations that a director may have, as well as if any limit regarding the category of director to whom votes may be delegated and whether a Director is required to delegate to a Director of the same category. If so, please briefly describe the rules.

In addition to applicable legislation, Article 14.2 of the Board Rules stipulates that, if a Director is unable to attend a meeting, the Director should try to submit a proxy, preferably with voting instructions, unless, in the Director's opinion, this would not be appropriate. The proxy may be sent by e-mail, letter, fax, telegram or any other valid means where transmission is verifiable. Non-Executive Directors may submit a proxy only to another non-Executive Director.C.1.29. Indique el número de reuniones que ha mantenido el Consejo de Administración durante el ejercicio. Asimismo señale, en su caso, las veces que se ha reunido el Consejo sin la asistencia de su Presidente. En el cómputo se considerarán asistencias las representaciones realizadas con instrucciones específicas.

NUMBER OF BOARD MEETINGS	10
NUMBER OF BOARD MEETINGS WITHOUT THE CHAIRMAN	0

If the chairman is also an executive director, indicate the number of meetings held where there was neither attendance nor representation of any executive director and where the meeting was chaired by the coordinating director.

NUMBER OF MEETINGS	1 (*)

(*) The Chairman was not present or abstained on account of dealing with 1) evaluation of his management and annual variable compensation as an executive and 2) his annual evaluation as Chairman of the Board, which took place at the same meeting.

Please specify the number of meetings held by each committee of the Board during the fiscal year:

NUMBER OF MEETINGS HELD BY THE EXECUTIVE COMMITTEE	2
NUMBER OF MEETINGS HELD BY THE AUDIT COMMITTEE	11
NUMBER OF MEETINGS HELD BY THE APPOINTMENT AND COMPENSATION COMMITTEE	8
NUMBER OF MEETINGS HELD BY THE APPOINTMENT COMMITTEE	-
NUMBER OF MEETINGS HELD BY THE COMPENSATION COMMITTEE	-
NUMBER OF MEETINGS HELD BY THE STRATEGY COMMITTEE	-

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

C.1.30. Indicate the number of meetings held by the Board of Directors during the year in which all of its Directors were present. For the purposes of this section, proxies given with specific instructions should be considered as attendance:

NUMBER OF MEETINGS WHEN ALL DIRECTORS ATTENDED	10
% OF ATTENDANCE OVER TOTAL VOTES DURING THE FISCAL YEAR	100%

Indicate that during fiscal 2017 overall attendance at Board meetings and committee meetings reached 94%, reaching 95% in the case of independent directors.

C.1.31 Indicate if the individual and consolidated financial statements submitted to the Board for approval were previously certified:

Yes ☑ No ☐

Identify, if applicable, the person/s who certified the individual and consolidated financial statements of the Company for preparation by the Board:

NAME	POSITION
Mr. Javier Lázaro	CFO
Mr. Antonio Mora Morando	Head of Control Management, Operations and Processes

C.1.32. Explain any measures established by the Board of Directors to prevent the individual and consolidated financial statements prepared by the Board from being submitted to the annual shareholders' meeting with a qualified audit opinion.

Article 39.2 of the Board Rules establishes that the Board of Directors must prepare the financial statements in such a way that there is no cause for either reservations or a qualified opinion by the auditor. It also stipulates that the Board must require the external auditors, along with the chairman of the Audit and Compliance Committee, to make a clear explanation of any qualified opinion to the Shareholders at the Annual Meeting.

The Audit and Compliance Committee also carries out comprehensive and detailed oversight of the preparation of financial statements and of the audit process from the initial planning stage, holding the necessary meetings and conversations with the audit firm regarding the audit and obtaining, if applicable, specific reports from the audit firm dealing with the audit's chief points, its development and its progress. The Audit and Compliance Committee also evaluates the management team's response to recommendations by the external auditors and mediates any differences between the two parties with regard to the principles and criteria applied to the preparation of the financial statements.

Before the financial statements are drafted by the Board, the Audit and Compliance Committee issues a report or recommendation to the Board, where one of the main factors considered is to expressly identify any aspects that may potentially lead to a qualified opinion in the auditors' report, making any relevant recommendations to avoid a qualified opinion being issued.

C.1.33. Is the secretary of the board also a director?

Yes ☐ No ☑

If the secretary is not a director, please complete the following table:

NAME OF THE SECRETARY	REPRESENTATIVE
José Antonio Escalona de Molina	

C.1.34.Repealed

C.1.35. Indicate any concrete measures established by the company to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies.

The Audit and Compliance Committee, in fulfilling the duties assigned to it by the Bylaws and the Board Rules, conducts a qualitative and quantitative analysis of the material aspects and options considered regarding the work of the external auditor.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

The Audit and Compliance Committee and the Board of Directors pay special attention to ensure that the external auditor's work is done with complete independence, and to accomplish this they specifically review the periodic rotation regime for the partner in charge of the teams which perform the audit, as well as the relative amount of fees charged for services other than audit. The Audit and Compliance Committee publishes their analysis in an annual Report drafted for said purpose in accordance with the provisions contained in applicable law, and which is made available to Shareholders upon call of the Annual Shareholders' Meeting.

For their part, the external auditors annually deliver formal, written confirmation to the Committee by means of a letter signed by the partner responsible for the Indra Sistemas, S.A. and its consolidated group account. This statement of independence confirms that the auditor of the financial statements for the Company has not encountered during the fiscal year any of the grounds for incompatibility recognized in the Ley de Auditoría de Cuentas ("Financial Auditing Act" or "LAC") which might interfere with the exercise of its functions in an independent fashion.

As regards relationships with financial analysts and investment banks, the Company makes frequent presentations and conference calls describing results and other events for these institutions during which business development and the scope and extent of the Group's most important economic and financial matters are described, in a manner that guarantees equal treatment of all.
All presentations to analysts are delivered beforehand to the CNMV, with the goal that the markets be informed of their contents through their website. Such presentations are published immediately on the Company website.

The office of Investor Relations, as part of the Finance Department, performs the duty of serving as the channel of communications for financial professionals and institutional investors and manages inquiries from them, guaranteeing equal treatment of all.

The Board of Directors, in compliance with the provisions of Recommendation 4 of the Code of Good Governance for Listed Companies, has approved and made available on the company website the Company's current Policy on Communication and Contact with Shareholders, Institutional Investors and Proxy Firms.

C.1.36. Indicate whether the Company changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

Yes ☐ No ☑

OUTGOING AUDITOR	INCOMING AUDITOR
-	-

If there were any disagreements with the outgoing auditor, please provide an explanation:

Yes ☐ No ☑

EXPLANATION OF DISAGREEMENTS
-

C.1.37. Indicate whether the audit firm provides any non-audit services to the Company and/or its Group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the Company and/or Group:

Yes ☑ No ☐

	COMPANY	GROUP	TOTAL
Amount invoiced for non-audit services (1000's of euros)	298	81	379
Amount invoiced for nonaudit services/ Total amount invoiced by the audit firm (in %)	35%	6%	17%

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

C.1.38. Indicate whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given by the Chair of the Audit Committee to explain the content and extent of the aforementioned qualified opinion or reservations.

Yes ☐ No ☑

EXPLANATION OF REASONS
-

C.1.39. Indicate the number of consecutive fiscal years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, indicate the number of fiscal years audited by the current audit firm as a percentage of the total number of fiscal years that the financial statements have been audited:

	COMPANY	GROUP
Number of Consecutive Fiscal Years	2	2
Number of fiscal years audit by the current audit firm/ number of fiscal years the Company has been audited (in %)	7.41%	7.41%

C.1.40. Indicate whether there is a procedure whereby directors may contract with outside advisors, and provide details if applicable:

Yes ☑ No ☐

EXPLANATION OF PROCEDURE

Article 26 of the Board Rules provides that, in order to obtain appropriate information and advice regarding the exercise of their duties, Directors may engage at Company expense legal, accounting or financial advisors or any other experts.

This engagement must focus on specific, relevant and complex problems that may arise in the performance of the duties of a Director.

The request to engage external advisory services must be delivered to the Chairman and authorized by the full Board, which may deny the request under the following circumstances:

(i) outside advice is not necessary for the adequate performance of duties assigned to Outside Directors;

(ii) the size or the importance of the problem relative to the financial condition of the Company does not justify the cost;

(iii) the assistance or advice required can be suitably provided by the Company's experts and technical personnel; or

(iv) confidential information may be put at risk

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

C .1.41. Indicate whether there is a procedure for providing information to directors to allow them to prepare for meetings of administrative bodies with sufficient notice. If so, explain the procedure:

Yes ☑ No ☐

EXPLANATION OF PROCEDURE
Article 13 of the Board Rules establishes that the Board must prepare an annual schedule of regular meetings and approve a formal list of issues to discuss at these meetings, and that notice of these meetings must always include the agenda for the meeting and be accompanied by any relevant information on the issues to be discussed. Notice of meetings is to be given, except in urgent circumstances or when otherwise necessary, no less than three days prior to the date of the meeting. In accordance with Article 10 of the Board Rules, the Chairman of the Board must ensure that Directors receive appropriate information on the issues to discuss with sufficient notice in advance of the meeting in question. Article 25 of the Board Rules also establishes that all Directors have the authority to obtain information on any matter related to the Company, to examine the books, records, documents and any other material on the Company's operations, and to inspect all the Company's facilities. Additionally, Article 28 of the Board Rules establishes that all Directors are responsible for the diligent procurement of information on the Company's condition and development, as well as preparing for the meetings of the Board and any committees to which they belong.

C.1.42.Indicate whether the company has established rules whereby directors must provide relevant information and, if applicable, resign, in any circumstances that may damage the Company's standing and reputation. If so, provide details:

Yes ☑ No ☐

EXPLAIN THE RULES
Article 23 of the Board Rules establishes that Directors must inform the Board and, if applicable, resign under those circumstances which may damage the credit and reputation of the Company and, particularly, inform the board of any criminal accusations against the Director as well as the results of any further proceedings. In addition, should a Director be formally accused or be subject to the commencement of a criminal procedure of any kind as described laws governing the Company, the Board of Directors will investigate the case as soon as possible and, given the circumstances, decide whether or not the Director should continue at his or her post.

C.1.43. Indicate whether any member of the board of directors has notified the company that he or she has been tried or notified that judiciary proceedings have been filed against him or her, for any offences described in Article 213 of the LSC.

Yes ☐ No ☑

NAME OF DIRECTOR	CRIMINAL CHARGE	REMARKS
-	-	-

Indicate whether the Board of Directors has examined the case. If so, explain in detail the decision taken as to whether the director in question should continue in his or her position or, if applicable, describe any actions taken by the board up to the date of this report, or which it intends to take.

Yes ☐ No ☐

DECISION/ACTION TAKEN	EXPLANATION
-	-

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

C.1.44. Detail any material agreements entered into by the company which enter into force, are modified or are terminated in the event of a change in control of the company following a public takeover offer, and their effects.

As described in Section A.12 above, the Company has two outstanding issues of convertible bonds listed on the unregulated market (multilateral trading facility) called Freiverkehr of the Frankfurt Stock Exchange.

In the document entitled "Terms and Conditions" of both issues, early maturity of the bonds at the request of the bondholders is discussed in the event of a change of control. In the event of change of control which is not the result of a takeover bid, bond payout will be bond principal plus accrued interest until the redemption date. In the event of a takeover bid, bondholders may choose the greater of the following values: the principal amount plus accrued interest to the date of redemption or repurchase price (equivalent value of the takeover bid applied to the bonds) plus interest accrued up to the redemption date.

C.1.45. Identify generally and describe in detail any agreements made between the company and its directors, executives or employees containing indemnity or golden parachute clauses in the event of resignation or dismissal or termination of employment without cause following a takeover bid or any other type of transaction.

NUMBER OF BENEFICIARIES	8
TYPE OF BENEFICIARY	**DESCRIPTION OF AGREEMENT**
Executive Directors	The current CEO/Chairman and Ms Cristina Ruiz have a temporary right to severance equivalent to the positive difference between one year's total target annualized compensation and the vested amount accumulated in his or her Early Retirement and Long Term Savings Plan at the moment of termination of his or her business relationship with the Company.
Senior Managers	The contracts of two senior managers of the Company include temporary severance clauses which provide for between one and two times their total annualized compensation, which is extinguished after a transition period after their employment by the parent Company or once the severance to which they are legally entitled exceeds the minimum guaranteed amount.
Managers	The contracts of 4 managers of the Company include specific severance clauses which provide for compensation, in case of termination of their ordinary employment relationship neither for cause nor because of voluntary resignation; these severance amounts are higher than would normally be payable under law. These contracts are unique to the individual and are in response to conditions negotiated for hiring on with the Company or are terms previously negotiated with third party companies that have become part of Indra.

Indicate if these contracts have been communicated to and/or approved by management bodies of the Company or of the Group

	BOARD OF DIRECTORS	ANNUAL SHAREHOLDERS MEETING
Body Authorizing the Severance Clauses	X	X

	YES	NO
Report made to the Annual Shareholders Meeting Regarding the Severance Clauses	X	

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

C.2. COMMITTEES OF THE BOARD OF DIRECTORS

C.2.1. Provide details of all committees of the Board of Directors, their membership, and the proportion of Executive, Proprietary, Independent and Other External Directors that make them up:

Executive Committee

NAME	POST	CATEGORY
Fernando Abril-Martorell Hernández	Chairman	Executive
Daniel García-Pita Pemán	Member	Independent
Enrique de Leyva Pérez	Member	Independent
Juan March de la Lastra	Member	Proprietary
Adolfo Menéndez Menéndez	Member	Proprietary
Ignacio Santillana del Barrio	Member	Independent
Alberto Terol Esteban	Member	Independent

% of Executive Directors	14.29
% of Proprietary Directors	28.57
% of Independent Directors	57.14
% of Outside Directors	0

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organization and function, and briefly describe its most important acts during the fiscal year.

The Executive Committee is composed of seven members (Article 17 of the Board Rules provides that it is to be composed of a number of members to be determined by the Board, with a minimum of four and a maximum of nine). Of the seven members, four are Independent Directors.

The Executive Committee has been delegated all of the authority of the Board except for those which are non-delegable in accordance with the LSC (Articles 529 ter and 249 bis), the Bylaws and the Board Rules.

Article 5.3 of the Board rules provides that "the Board may not delegate any powers which it is required by applicable law to perform itself. Additionally, the Board may not delegate any other powers it needs for the proper performance of its general supervision and control."

Membership structure for the different categories of Director on the Executive Committee is similar to that of the Board of Directors.

Pursuant to Board Rules, the Board Chairman and Secretary will also serve as Chairman and Secretary of the Executive Committee. Should the Chairman of the Board not be a member, then the Chairman of the Committee will be another Executive Director who is a member.

Appointment to membership and permanent delegation of powers by the Board requires a favourable vote of at least two thirds of the members of the Board.

Resolutions adopted by the Executive Committee are binding and effective with no need for later ratification by the Board, except in those cases when ratification is required by law or when the matter is of such importance in the judgment of the Chairman or one third of the Executive Committee membership that it is decided to submit the matter to ratification at a plenary session of the Board.

During fiscal 2017 the Executive Committee met on two occasions and dealt with, among other matters, the following: (i) analysis of operational matters of the Company; (ii) analysis of financial information; and (iii) follow up of the most important matters reported to the Board.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Indicate if the composition of the executive committee reflects the participation of different categories of directors on the board of directors:

Yes ☑ No ☐

IF NOT, EXPLAIN THE COMPOSITION OF THE EXECUTIVE COMMITTEE BY CATEGORY OF DIRECTOR
-

Audit Committee

NAME	POST	CATEGORY
Ignacio Santillana del Barrio	Chairman	Independent
Juan Carlos Aparicio Pérez	Member	Proprietary
Enrique de Leyva Pérez	Member	Independent
Luis Lada Díaz	Member	Independent
María Rotondo Urcola	Member	Independent
Santos Martínez-Conde Gutiérrez-Barquín	Member	Proprietary

% of Proprietary Directors	33.33
% of Independent Directors	66.66
% of Other Outside	0

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organization and function, and briefly describe its most important acts during the fiscal year.

The Audit Committee is composed of six members, all of them Outside Directors. (Article 18 of the Board Rules provides that it be composed entirely of Non-executive Directors, with a minimum of three and a maximum of six). Of the six members, four of them are Independent.

Its Chairman must be an Independent Director and must be replaced at least once every four years, with the possibility of re-election after one year has elapsed from the date of his or her stepping down from the chairmanship. In choosing the Chairman and the other members, special attention must be paid to knowledge and experience in matters relating to auditing and accounting.

In the aggregate, the members of the Committee will have the relevant technical knowledge pertaining to the business sector in which the Company operates and will be chosen, the Chairman in particular, taking into account their knowledge and experience in accounting, audit or risk management.

In the event of the Chair´s absence, the meeting is to be chaired by an Independent Director appointed for this purpose by the Committee.

The duties and powers of the Audit and Compliance Committee, in addition to those assigned to it by applicable law, are found in Article 18 of the Board Rules:

a) Ensure that the Board 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 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;

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

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 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.

The Activities Report of 2017, which will be published at the time of call of the Annual Shareholders Meeting, explains the activities of the Committee during the stated fiscal year.

Identify the director member of the audit committee who has been appointed taking into account his or her knowledge and experience in matters of accounting, audit or both, and state the amount of time the chairman of this committee has held his or her post.

NAME OF DIRECTOR WITH EXPERIENCE	Ignacio Santillana del Barrio
NUMBER OF YEARS AS CHAIR	2 years, 6 months

Nomination and Compensation Committee

NAME	POST	CATEGORY
Alberto Terol Esteban	Chairman	Independent
Daniel García-Pita Pemán	Member	Independent
Silvia Iranzo Gutiérrez	Member	Independent
Adolfo Menéndez Ménendez	Member	Proprietary
Santos Martínez-Conde Gutiérrez-Barquín	Member	Proprietary

% of Proprietary Directors	40
% of Independent Directors	60
% of Other Outside Directors	0

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organization and function, and briefly describe its most important acts during the fiscal year.

The Nomination, Compensation and Corporate Governance Committee is composed of five members, all of them Non-executive Directors (Article 19 of the Board rules requires that the Committee be composed exclusively of Non-executive Directors, with a minimum of three and a maximum of six).

Of the five members of the Committee, three are Independent Directors.

This committee is required to be chaired by an Independent Director. When the chairman is absent, meetings are to be chaired by the Independent Director named by the committee for this purpose.

In any event, the Chairman of the Board–if Executive–or the CEO is to be consulted and called to meetings of the committee when it deliberates on issues relating to Senior Management other than themselves. Additionally, the committee is to consult with the Chairman of the Board and the Company CEO particularly when matters relevant to Executive Director are to be considered. Notwithstanding any other tasks that may be assigned to it by applicable law, the mandate of the

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Nomination, Compensation and Corporate Governance Committee is as follows:

a) Annually verify compliance with the policy on selection of Directors approved by the Board of Directors.

b) Annually verify that Directors have maintained the category status under which they were selected and state as much in the Annual Corporate Governance Report.

c) Verify the contents of the Annual Corporate Governance Report.

d) Ensure that Non-executive Directors have sufficient availability in order to properly perform their duties.

e) Draft a report in advance for the use of the Board in making its annual self evaluation and another for the annual evaluation of the Chairman of the Board.

f) Propose contract terms for senior managers.

g) Verify compliance with compensation policies established by the Company.

h) Periodically review the compensation policy for Directors and senior managers, including rules for delivery of stock, as well as ensure that individual compensation is proportional to that which is paid to other Directors and senior managers within the Company.

i) Ensure that potential conflicts of interests do not undermine the independence of external advice delivered to the Committee.

j) Verify the information regarding compensation of Directors and senior managers contained in corporate documents, including the Annual Report on Director Compensation.

k) Make advance reports to the Board of Directors regarding non arms' length transactions.

l) Perform a periodic analysis of Company policies, internal rules, and operating procedures and practices related to Corporate Governance and Corporate Social Responsibility as well as the level of compliance with domestic and international regulations, recommendations and best practices in these areas.

m) Propose to the Board amendments which it deems appropriate to the above mentioned policies, rules, practices, and procedures in areas of Corporate Governance as well as Corporate Social Responsibility, explaining the rationale behind the proposals.

n) Report to the Board, prior to the Board's approval, on information which the Company makes public and which falls within the scope of the Committee's mandate.

The Activities Report of 2017, which will be published at the time of call of the Annual Shareholders Meeting, explains the activities of the Committee during the stated fiscal year.

C.2.2. Complete the following table with information regarding the number of female directors who were members of board committees at the close of the past four fiscal years:

	NUMBER OF FEMALE DIRECTORS							
	FISCAL YEAR T		FISCAL YEAR T-1		FISCAL YEAR T-2		FISCAL YEAR T-3	
	NUMBER	%	NUMBER	%	NUMBER	%	NUMBER	%
Audit Committee	1	16.6	0	0	0	0	1	20
Nomination and Compensation Committee	1	20	2	40	2	40	1	20
Executive Committee	0	0	0	0	–	–	–	–

C.2.3. Repealed

C.2.4. Repealed

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

C.2.5. Indicate, where applicable, the existence of any regulations governing Board committees, where these regulations may be found, and any amendments made to them during the fiscal year. State also whether any annual reports on the activities of each committee have been voluntarily prepared.

The composition, organisation and areas of competence of the Board committees are regulated by the Board Rules, which are permanently available for consultation on the Company's website (www.indracompany.com) and on the website of the CNMV.

Each of these Committees, as well as the Board itself, prepares an annual report detailing its activities and accomplishments during the year, in accordance with Board Rules. This report is submitted to the Board for its annual evaluation of its own performance and the quality of its work and that of its Committees.

In accordance with the recommendation made by the CNMV, and as has been the case since 2003, the Report on the Activities of the Audit and Compliance Committee was published when Shareholders were called to the 29 June 2017 Meeting, along with the report of the Nomination, Compensation and Corporate Governance Committee.

C.2.6. Repealed

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Describe, if applicable, the procedure for approval of related party and intragroup transactions.

PROCEDURE FOR APPROVAL OF RELATED PARTY TRANSACTIONS
The Board of Directors, after review of a report from the Nomination, Compensation and Corporate Governance Committee, is required to be aware of and to authorize before its execution any direct or indirect transaction between the Company and any related party, as that term is defined under law. Transactions are judged from the point of view of equal treatment and market conditions. In the case of recurring nonsignificant transactions conducted in the Company's ordinary course of business and carried out under market conditions, authorization by the Board of the general line of activity is sufficient, where it is understood by "nonsignificant" that information regarding such transactions need not be separately published in order to give a fair representation of the entity's net worth, financial position or financial results. The authorization referred to in the preceding paragraph shall not be required, however, when the non arms' length transaction in question meets all three of the following conditions: • The transactions are carried out under conditions which are standard and of general application to a large number of clients; • They are carried out under pricing regimens generally applicable for the good or service provided; and • The amount does not exceed 1% of the annual consolidated revenues of the Company in the case of transactions with Shareholders or 20,000 € in the case of transactions with Directors.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

D.2. Describe any transactions which are significant, whether because of the amount involved or subject matter, entered into between the company or entities within its group and the company's significant shareholders:

NAME OF SIGNIFICANT SHAREHOLDER	NAME OF COMPANY WITHIN THE GROUP	NATURE OF THE RELATIONSHIP	TYPE OF TRANSACTION	AMOUNT (1000'S OF EUROS)
SEPI	VARIOUS GROUP COMPANIES	COMMERCIAL	Services Received(1)	2,111
SEPI	VARIOUS GROUP COMPANIES	COMMERCIAL	Services Rendered(2)	13,837
CORPORACIÓN FINANCIERA ALBA, S.A.	BANCA MARCH, S.A.	CONTRACTUAL	Others(3)	10
CORPORACIÓN FINANCIERA ALBA, S.A.	BANCA MARCH, S.A.	COMMERCIAL	Operational Leasing Contracts	90
CORPORACIÓN FINANCIERA ALBA, S.A.	BANCA MARCH, S.A.	COMMERCIAL	Services Rendered (2)	3,564
CORPORACIÓN FINANCIERA ALBA, S.A.	BANCA MARCH, S.A.	CONTRACTUAL	Commitments Undertaken(4)	3,793
CORPORACIÓN FINANCIERA ALBA, S.A.	BANCA MARCH, S.A.	CONTRACTUAL	Loan Financing Agreements(5)	1,000

(1) Services rendered to Indra necessary for the conduct of its business
(2) Services rendered by Indra in the ordinary course of business
(3) Commissions paid for management of loan guarantees
(4) Maximum amount of credit lines
(5) Maximum amount of the line of credit that a Group Company has with Banca March.

All transactions with shareholders have been authorized in accordance with Board Rules and were carried out in the Group´s ordinary course of business and under market conditions, and do not represent, either separately or in the aggregate, a significant portion of the assets, financial condition or business activity of the Group, notwithstanding the policy of the Company to provide detailed information regarding all of them within this report.

D.3. Describe any transactions which are significant, whether because of their amount or subject matter, entered into between the company or entities within its group and administrators or managers of the company:

NAME OF ADMINISTRATOR OR MANAGER	NAME OF THE RELATED PARTY	RELATIONSHIP	TYPE OF TRANSACTION	AMOUNT (1000'S OF EUROS)
-	-	-	-	-

D.4. Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the preparation of the consolidated financial statements and do not form part of the Company's ordinary business activities in terms of their purpose and conditions:

In any event, note any intragroup transaction conducted with entities established in countries or territories which are considered tax havens.

NAME OF ENTITY WITHIN THE GROUP	BRIEF DESCRIPTION OF THE TRANSACTION	AMOUNT (1000'S OF EUROS)
-	-	-

D.5. Indicate the amount of any transactions conducted with other related parties.

NAME OF PARTY	NAME OF PARTY WITHIN THE GROUP	NATURE OF THE TRANSACTION	TYPE OF TRANSACTION	AMOUNT (1000'S OF EUROS)
-	-	-	-	-

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

D.6. Describe the mechanisms in place to detect, determine and resolve potential conflicts of interest between the company and/or its group and its directors, senior management or significant shareholders.

Under the provisions of Article 31 of the Board Rules, a conflict of interest shall exist in the event that the interests of the Company or any member of its group are directly or indirectly in conflict with the personal interests of the Director. A personal interest shall include matters which affect the Director or a person connected to him or her. Directors shall take all means necessary to avoid finding themselves in situations where their interests may enter into conflict with the interests of the Company and the duties owed to the Company.

In particular, the duty to avoid conflicts of interest requires that the Directors avoid:

a) Conducting business with the Company other than nonsignificant, routine transactions conducted under standard conditions and whose import is such that information regarding such transactions need not be separately published in order to give a fair representation of the entity's net worth, financial position or financial results.

b) Using the name of the Company or using their status as Directors thereof to unduly influence the results of private transactions.

c) Making use of Company assets, including insider information, for their own benefit.

d) Taking advantage of business opportunities belonging to the Company.

e) Obtaining benefits or monetary gain from third parties other than the Company and members of its group arising from the completion of the Directors' duties, other than de minimis amounts.

Additionally, Directors must communicate any direct or indirect conflict of interest which may arise with the Company.

Directors must also communicate: (i) duties which they fulfil on other boards of directors to which they belong, whether the company be listed or not, as well as any other compensated activities in which they engage, regardless of nature; and (ii) equity interest in the Company as well as any Company stock options they control, whether directly or indirectly.

Notwithstanding the aforementioned, the Company may dispense with the prohibitions contained in this section on a case by case basis and authorize: (i) certain transactions between a Director or a related person and the Company; (ii) the use of certain company assets; (iii) pursuit of a specific Company business opportunity; (iv) exploitation of an opportunity; or (v) compensation from a third party.

Authority must be ratified at an Annual Shareholders' Meeting when its purpose is to exempt the Director from the prohibition against exploiting an opportunity or receiving payment from third parties, or when the transaction's value exceeds 10% of corporate assets.

In all other cases, authority may be granted by the Board of Directors provided that the independence of the Directors granting such authority is ensured as well as a lack of risk to Company assets and, when applicable, the transaction is conducted under ordinary market conditions and transparently.

For events described in the fourth paragraph above, the Board, following a report from the Nomination, Compensation and Corporate Governance Committee, is required to order adoption of such measures as it considers necessary to safeguard the interests of the Company.

The Company will make public any situations of conflict of interest in which Directors may find themselves in accordance with applicable law.

D.7. Is there more than one company in the Group listed in Spain?

Yes ☐ No ☑

Please name the listed subsidiaries:

LISTED SUBSIDIARIES
-

Indicate if the respective areas of activity and business relationship between the listed companies has been defined publically and precisely, as well as between the subsidiary and other members of the Group.

Yes ☐ No ☐

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

DESCRIBE THE BUSINESS RELATIONSHIP BETWEEN THE PARENT AND SUBSIDIARY LISTED COMPANIES AS WELL AS BETWEEN THE SUBSIDIARY AND OTHER MEMBERS OF THE GROUP
-

Identify measures taken to resolve potential conflicts of interest between the listed subsidiary and the other companies in the Group:

MEASURES TAKEN TO RESOLVE POTENTIAL CONFLICTS OF INTEREST
-

E. RISK MANAGEMENT AND CONTROL SYSTEMS

E.1. Explain the scope of the company's Risk Management and Control System, including tax compliance risk.

The Risk Management and Control System at Indra Group is a process driven by the Board of Directors and Senior Management whose responsibility falls on each and every member of the Indra Group and which aims to provide reasonable assurance of achieving stated goals, added value, and an adequate level of assurance to Shareholders, other stakeholders, and the market in general.

In order to achieve these goals, the Board of Directors, by means of the Audit and Compliance Committee, supervises the effectiveness of the internal evaluation and control system for material risks, including tax risk, established in accordance with a set of key operating principles within the framework of the Risk Management Control System, and adapts them to the specific needs of Indra:

a) Value Protection: Seeing Risk Management and Control as a system which creates and protects generated value for all stakeholders.

b) Integrity: The Risk Management and Control System covers the entire Indra Group, from the corporate level to the distinct business units, regardless of geographic location, and is incorporated into the process of strategic planning, into the definition of business objectives, and into day to day operations in order to achieve its goals.

c) Homogeneity: Establishment of a common definition for risk, including within that definition any potential event which might negatively affect business goals.

d) Independence: The Organization's Risk Management and Control System at Indra Group guarantees adequate functional segregation between the distinct elements of which it is comprised; that is, between the areas which assume and manage risk and the areas responsible for coordination, control and supervision.

e) Proactivity: Encourage a proactive management of risk which incorporates controls during design processes which aid risk mitigation, implementing contingency plans and establishing coverage for risk whenever possible.

f) Coherence: Generally speaking, risk management should be done with coherent criteria regarding the magnitude of risk and the costs required to reduce it. Additionally, Risk Management and Control should be consistent with the rest of processes at Indra Group and its business model.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

g) Information: Guarantee the existence of mechanisms which assure adequate reporting to the administrative bodies charged with risk control (Senior Management, Risk Coordination Unit, Audit and Compliance Committee, and the Board of Directors).

These principles are described in the Indra Group Risk Management and Control Policy, which is periodically updated.

The Risk Management and Control System at Indra Group is based on management of business units, processes, corporate geographies and areas, and is an integral part of the decision making process.

The Risk Management System methodology establishes means for identification, evaluation, response, follow-up and communication of risks, including tax risks, allowing reasonable management of the risks to which the Indra Group is exposed.

The Global Risk Map is reported periodically to the Audit and Compliance Committee for review, as well as to the Board of Directors.

In December 2017 the Audit and Compliance Committee approved the plan from the Global Risks Unit for the three year period. Said plan establishes the strategic lines in which the Global Risks Unit will work and is based on the three fundamental principles with various initiatives associated with each one:

1. Risk Management and Control Framework
2. Risk Management and Control System
3. Information and Communication

E.2. Identify the bodies within the company responsible for creating and executing the Risk Management and Control System, including tax compliance risk.

Pursuant to Article 5 of the Board Rules, those duties reserved for its direct consideration under applicable law may not be delegated by the Board. Among those duties that may not be delegated by the Board are those of approval of the Risk Management and Control Policy as well as supervision of internal information and control systems.

In order to carry out its duties, the Board relies upon the Audit and Compliance Committee, which is tasked with supervising the efficacy of the Risk Management and Control System. The Committee makes periodic reports to the Board of Directors regarding its conclusions arising from the reviews that it performs, and makes proposals and recommendations that it deems necessary.

For its part, Indra Group Senior Management has the responsibility of promoting a culture of risk management at all levels, defining the functions and responsibilities within the framework of the Risk Management and Control System, including tax risk, and supervising action plans and work stemming from the Risk Management process. More specifically, its functions with respect to the Risk Management and Control System are the following:

- Facilitate sufficient measures to accomplish Risk Management activities as well as define functions and responsibilities within the system framework
- Validate Risk Management and Control Policies
- Validate proposals for risk appetite and follow-up on risks that approach established tolerance.
- Approve the Global Risk Map as well as response plans designed for their mitigation

The Risk Coordination Unit ("RCU"), created in March 2017 and made up of Senior Managers, has the following functions regarding the Risk Management and Control System:

- Support the proper function of the Risk Management and Control System, paying attention to its identification, assessment, quantification and follow-up
- Validate proposals for Risk Management and Control Policies
- Help define the risk appetite and follow up on risks which exceed established tolerance levels

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

- Preapprove the Global Risk Map as the status of mitigation measures

The Global Risk Unit has the following functions as respects the Risk Management and Control System:

- Ensure the good operation of the Risk Management and Control Systems, providing effective tools for evaluation, prioritization and management of risks. Raise awareness regarding the importance of the Risk Management and Control System, encouraging a culture of risk management at all levels
- Draft proposals for Risk Management and Control Policies and propose their amendment and update
- Give advice on establishing risk appetite and tolerance. Ensure that testing of those boundaries be informed and managed
- Draft the Global Risk Map
- Monitor establishment and effectiveness of countermeasures designed for primary risks

Risk owners have the following functions:

- Monitor risks which are their responsibility in accordance with the methodology and tools defined in the Risk Management and Control System
- Participate in the design of Risk Management and Control Policies
- Propose a risk appetite, thresholds, and corrective actions when risk tolerance is in danger of being surpassed
- Evaluate risks under their responsibility during the exercise of drafting the Global Risk Map and implement countermeasures to those risks

Finally, Internal Audit, for its part, delivers recommendations to the Indra Group which help reduce to reasonable levels the potential impact of risk which may interfere with reaching its goals.

During fiscal 2017 the Audit and Compliance Committee analyzed the Global Risk Catalogue and supervised drafting and follow up of the Global Risk Map, which was approved by said Committee as well as by the Board of Directors.

Indra Group relies upon support and automisation tools which facilitate the process of constantly identifying and evaluating risks. The Audit and Compliance Committee is informed regarding improvements made in said tools and periodically reviews the selection, design and implementation of Key Risk Indicators.

E.3. Give the primary risks, including tax compliance risks, which may affect the achievement of business objectives.

In the development of core business activities, Indra Group is subject to various risks inherent in the different businesses and geographies in which it operates, the following of which are noteworthy:

Compliance Risks

Associated with noncompliance with laws and with rules of general application in all of the markets in which Indra Group operates, fundamentally in the area of crime and fraud prevention and legal obligations which arise from Indra Group's operations. Tax risks are included in this section.

Risks regarding noncompliance with legal and regulatory decisions on Work Safety are also included in this section, where Indra Group promotes a culture of risk prevention in all of its activities, with a focus on continuous improvement.

Indra Group has committed to maximum protection of the environment in its activities, even when significant impact is not anticipated.

Strategic Risks

Derived from the strategic position of Indra Group within the environment in which it does business and encompasses the difficulty in reaching objectives as defined in the Strategic Plan.

Within the objective of meeting the Strategic Plan, the Group will focus its efforts on monitoring profitability of the businesses it operates and investment in new technologies that improve its port folio of products and projects, and which facilitates adaptability, progress and achievement of strategic business goals. Additionally, as regards the geographic areas in which it operates, Indra Group has developed its business strategies using general criteria of prudence and within a framework that takes into account international socio-economic risks.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Financial Risks

Arising from fluctuations in financial markets and/or values of goods and services which affect costs, including areas related to management of exchange rates, liquidity risk or interest rates, as well as credit risk related to the possibility of a contract party not fulfilling its obligations and producing an economic or financial loss for Indra Group.

Indra Group's growing international presence makes exchange rate fluctuations outside of the eurozone one of its market risks. Significant exchange rate fluctuations in certain countries may have a negative effect on Indra Group's results.

Interest rate risk arises from the exposure to the movements of the curves of bank financing and capital market rates in the short, medium and long term. An increase in rates could have a negative impact on profitability. Indra Group is considering the execution of financial instruments in order to manage those risks should the situation permit.

Lines of credit and loans maintained by Indra Group with various financial entities allow it to deal with liquidity risks arising from the impossibility of obtaining cash in a timely manner.

Exposure to credit risk arises to the extent that clients do not fulfil their obligations, the clients of Indra Group having good credit profiles. Business relationships that Indra Group maintains are primarily with large corporate groups, states and public as well as public-private entities which are less exposed to non-payment risks.

Operational Risks

These arise from possible threats associated with projects and services, which make necessary prophylactic measures to be taken by project managers in order to manage their possible effects, from the drafting of bids and negotiation of contracts, to their execution and delivery.

The installation of technology solutions requires execution of large and complex projects, which require substantial support services, significant and qualified resources, and in many cases reliance upon the efforts and cooperation of suppliers, as well as clients themselves. There are risks that Indra Group will not be able to deliver the offered solution or that the goals assumed require a greater assumption of costs, or that technological limitations may impede delivery in the time and manner agreed, which could effect significant profit and cash losses from said projects, and in turn have a significant impact on Indra Group's financial position. Also, variances in project execution may give rise to contractual penalties, including cancellation of certain projects. Said situations could affect Indra Group's business reputation and solvency not only regarding the client but also other clients in the same or similar sectors and geographical areas where Indra Group operates.

Identification, hiring and active management of personnel are the primary objectives of managing the risks associated with human resource management.

Indra Group manages risks associated with information security, guaranteeing adequate protection of Indra Group's and its clients' data, as well as the technological assets that it uses.

For more information, see the Indra Group Annual Financial Statements (management report) where specific risks associated with each of the mentioned categories are described.

E.4. State whether the entity has a risk tolerance level, including tolerance for tax compliance risk.

The Risk Control and Management Policy at Indra Group is designed to achieve a moderate risk profile by means of appropriate management. Tolerance norms are established by means of directives, rules and procedures which assure that under this management environment risks are maintained at acceptable levels. This means that Indra Group does not attempt to eliminate all risk, but rather to assume a prudent level which permits the creation of sustainable and repeatable value while maintaining acceptable levels of risk.

Those risks which are outside of established tolerance levels are subject to actions to re-establish desirable levels to the extent that the risk is manageable and the cost of mitigation measures are justified by the potential impact of the risk on Indra.

E.5. Indicate which risks, including tax compliance risks, have materialized during the fiscal year.

During the fiscal year, risks inherent to the Indra Group own activity, the market environment and the economic situation as well as risks of a fiscal nature have materialized.

For more information, details are provided in the Indra Group Annual Financial Statements.

E.6. Explain the response and monitoring plans for all major risks, including tax compliance risks, of the entity.

Indra Group actively confronts any important risks identified, including tax risks, and establishes countermeasures with the goal of maintaining those risks within tolerance levels established by Management. The response measures are created by those responsible for the risks and it is the

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

duty of the Global Risk Unit to follow up as well as report on their implementation and effectiveness. When faced with a specific risk, Indra Group has the following response strategies available: Accept, Reduce, Transfer, or Avoid.

The Global Risk Map is the graphic representation of the most important global risks for Indra Group. There is also an analysis of Reputational Risk. Each of the risks contained in the Risk Map has an associated mitigation plan established as a countermeasure, and created by the risk owner.

The Global Risk Map report is presented to the Risk Coordination Unit (RCU) and Senior Management for its approval and late is presented to the Audit and Compliance Committee for oversight.

The Board of Directors approved the Global Risk Map and the mitigation plans included within it in 2017.

The RCU works with each risk owner in implementation of mitigation plans defined as countermeasures to each of the principal identified risks. Follow up of implementation of these plans is done through a series of implementation control indicators, among other means.

Additionally, Indra Group performs periodic follow up activities regarding risk through the RCU. The risk owner makes periodic reports to the Audit and Compliance Committee regarding the status of mitigation plans.

On the other hand, training activities are promoted for the various units with risk management duties, with the goal of raising awareness of risks specific to each cohort of the Company.

This entire process is supported by tools which favour automisation and support of the risk management process. Indra Group has in place a risk management tool for Governance, Risk and Compliance (SAP GRC RM).

F. INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS RELATED TO THE PROCESS OF PUBLISHING FINANICAL INFORMATION

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

F.1. Control environment

Report on at least the following, describing their principal features:

F.1.1. Which bodies and/or departments are responsible for (i) the existence and maintenance of an adequate and effective ICFR; (ii) its implementation; and (iii) its supervision.

Board of Directors

The Indra Board of Directors is ultimately responsible for the existence and maintenance of an adequate and effective ICFR by exercising supervision of it through the Audit and Compliance Committee.
To such ends, the Board is responsible for supervising and approving, among other things:

- General risk management and control policy and the design of adequate control and information systems for the same
- Communication policy for Shareholder, institutional investor and proxy advisors, and specifically:
  - drafting and approval of information that the Company annually makes public along with the Financial Statements produced for approval at Annual Shareholders Meetings; and
  - approval of financial information that the Company must make public from time to time in accordance with applicable law.

Audit and Compliance Committee

In accordance with the Board Rules and the Bylaws, the Committee is formed exclusively by Outside Directors. The number of its members may not be less than three or more than six, and the majority must be Independent Directors.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

The Chairman of the Committee is to be an Independent Director, chosen taking into account his knowledge and experience in accounting and audit.

Article 18 of the Board Rules lists the following tasks for the Audit and Compliance Committee, among others:

- Ensure that the Board of Directors is able to produce Annual Financial Statements to the Annual Shareholders' Meetings without reservations in the audit report. In the exceptional circumstances that there be reservations, the Chairman of the Audit Committee as well as the auditors will clearly explain to the Shareholders the content and scope of said qualifications or reservations.

- Supervise the internal audit management in order to ensure that it is oversees the proper functioning of internal information and control systems.

- As regards internal information and control systems: (i) supervise the drafting process and the integrity of financial information regarding the Company, verifying compliance with applicable rules, proper scope of consolidation and correct application of accounting standards; (ii) ensure the independence of the unit performing the internal audit function; propose the selection, appointment, re-election and dismissal of the Head of internal audit; propose the budget for this service; approve the direction and plans for their work, ensuring that its activity is focused primarily on material risks to the Company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports; and (iii) establish and supervise a mechanism which permits employees to communicate in confidence and, if possible and appropriate, anonymously, any potentially important irregularities, especially those of a financial or accounting nature, of which they become aware in the Company.

- 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 quality or independence; (iii) supervise the reporting of any change in the auditor by the Company as a relevant event to the CNMV, accompanied by a statement regarding the existence of any disagreements with the outgoing auditor and, should they exist, of their substance; and (iv) ensure that the external auditor hold an annual meeting with the entire Board of Directors in order to report to it regarding the work performed and evolution of the accounting situation and of risks to the Company; and (v) 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, other rules regarding the independence of the auditors.

Finance Department

The Finance Department is responsible for implementation and maintenance of controls for the Internal Control System for Financial Information.

Internal Audit and Global Risks Department

Internal Audit and Global Risks makes periodic reports to the Audit and Compliance Committee regarding the Internal Control System.

Under the auspices of the Audit and Compliance Committee, Internal Audit conducts a review of the proper functioning of the ICFR, evaluating its design and effectiveness, reporting any shortcomings it may detect during the course of its work as well as the scheduling established for corrective measures in the event they are necessary.

All matters related to Internal Control of Financial Information are regulated in the Corporate Rule "Drafting, Maintenance and Supervision of ICFR." This Rule has as its goal the establishment of responsibility and mechanisms for implementing a proper and effective internal control system which guarantees the reliability of financial information.

F.1.2. State whether the following are present, especially as they relate to creation of financial information:

- **Departments and/or mechanisms in charge of: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout the entity.**

As regards organizational structure, Board Rules provide the following:

The Board of Directors will submit for approval to the Annual Shareholders Meeting, at least every three years, the compensation policy for Directors, which policy shall be consistent with the compensation scheme set forth in the Bylaws. In said compensation policy, the Shareholders shall establish the maximum amount of compensation for Directors for performance of their duties as Director. With advice from the Nomination, Compensation and Corporate Governance Committee, the Board will ensure that the compensation of Directors is sufficient for the dedication, qualifications

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

and responsibility that the position requires, but at the same time does not constitute, in the case of Independent Directors, an impediment to their independence.

The Board of Directors concentrates on matters of general control and supervision, ensuring that executive bodies and the management team to whom day to day Company management have been delegated act in accordance with approved strategies and stated goals. This task routinely requires design and review of organizational structure as well as definition of lines of responsibility and authority by the Chairman and his Steering Committee.

Control Management, Operations and Processes department is responsible for the design, establishment, review and constant updating of Indra's corporate structure, and consequently for those units involved in the process of creating financial information.

The Organizational Chart is published on the Intranet and is accessible to all personnel in the Company.

- **Code of conduct, a body which approves it, degree of dissemination and instruction, included principles and values, (indicate if there is specific mention of transaction recording and creation of financial information), a body charged with analyzing infractions and proposing corrective actions and sanctions.**

Code of Ethics and Legal Compliance

The most recent update of the Code of Ethics and Legal Compliance was approved by the Board in October 2017. The most important features of the update are the following: i) unification for Spain and foreign subsidiaries ii) adaptation of the Canal Directo rules to limits imposed by some local regulatory bodies (i.e. anonymous complaints and restrictions on material which may be communicated through the portal), iii) adaptation of the Code of Conduct regarding Information Security due to amendments in relevant internal norms, iv) strengthening of the Code of Conduct regarding Protection of Competition and v) amendment of the regulation regarding donations and sponsorship with the goal of fixing new quantitative and qualitative limits on said donations and sponsorships.

This update is available on the intranet and the Company website in the Group's three official languages (Spanish, English and Portuguese).

The Code of Ethics and Legal Compliance reflects the commitment of the Company to the International Declaration of Human Rights, to principles regarding rights established in the Declaration of the International Labour Organization and to the principles of the UN Global Compact. The Code of Ethics contains:

- General Principles of Behaviour, which are to guide all decisions and commercial practices at Indra. These are: Integrity, Professionalism and Respect. Integrity means acting in good faith and establishing professional relationships based on transparency and ethics. Professionalism means maintaining a proactive attitude directed towards excellence in our work. And Respect includes an attitude of recognizing the value of people and their work, the natural environment, and the social environment in which we operate.

- Rules of Conduct and commitments that Indra assumes in matters of legal compliance. Said Rules of Conduct regard: corruption and bribery; conflicts of interest; information security; psychological and sexual harassment, foreign trade in defence materiel and dual-use technology; government subsidies and public support; natural environment; best tax practices; management of financial information; protection of competition; money laundering and financing of terrorism; workplace health and safety; and government relations.

- The Rules of Conduct regarding "Management of Financial Information" provides that "Financial information of Indra, particularly the annual reports, will accurately reflect its economic and financial condition and its net worth, and will conform to applicable generally accepted accounting practices and international financial information rules. To this end, no Professional or Associate shall hide or distort information contained in any books of account or financial reports of Indra, which books and accounts shall be complete, accurate and honest." The principles used for accounting and management are correction, integrity and transparency, in complete compliance with applicable law.

- For the Canal Directo (Direct Channel): one of the general controls for detecting noncompliance with the Code of Ethics and Legal Compliance is the Canal Directo. The Code of Ethics and the Manual for Prevention of Criminal Risks establish the operational norms for said Channel (canaldirecto@indra.es) which provides a confidential means which the Company makes available to all of Indra's Professionals and other Associates for the purpose of communicating to the Company (i) any concern whatsoever regarding interpretation and application of the Code of Ethics and its enabling rules and (ii) any improper behaviour or any irregularity or infraction discovered regarding the Code of Ethics and rules.

In 2017 the Canal Directo received 217 direct and indirect communications (including referrals by the Compliance Unit to the Canal Directo). This number of communications represents an increase of 110.68% over the number received in 2016 (103 communications).

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

All of the communications were properly attended to by the Compliance Unit, processing the cases in those instances where it has gone forward. Additionally, it imposed disciplinary and other measures as appropriate.

The 217 communications received consisted of:

- 134 inquiries regarding donations and sponsorship, conflict of interest, professional courtesy and information requests from third parties regarding our Model;
- 83 regarding presumed irregularities related to the Code of Ethics and Legal Compliance

The Canal Directo places information received in a dedicated file. Personal information included in communications received through the Canal Directo is placed in a file configured and managed in accordance with applicable law regarding the protection of data. The information is kept as long as necessary to allow communication, with all personal information in the file deleted no more than two months after closure of the file where the information is found.

The Audit and Compliance Committee reports at least once a year to the Board of Directors regarding the function of the model for Prevention of Criminal Risks.

Training Programs

The Compliance Unit provides training in Ethics and Legal Compliance to Company Professionals with the goal of promoting a robust culture of compliance. Together with the Finance Department, Human Resources Department periodically develops external and internal training programs directed at personnel involved in the creation of financial statements for the Company. The training programs are focused on proper knowledge and implementation of International Financial Information Standards and on legislation and other regulations governing Internal Control of Financial Information. Many of these courses take place by means of attendance at seminars on auditing principles, and are immediately applicable.

Additionally, there are various courses and seminars dealing with tax issues arising from regulatory changes in the various countries where Indra does business.

The Head of Internal Audit remains up to date on new developments in the areas of Risk Management and Internal Control, especially as they relate to Financial Information. In particular, the following training activities have been competed:

- Training sessions regarding the Indra Financial Statements
- Training sessions regarding the Indra Risk Map
- Course on advanced accounting
- Course on International Financial Information Standard 15
- Course on ISO 3100

In November 2017 the Internal Audit department sponsored some Training Days directed to employees on the front line of defence, with the goal of enabling them to report on design evaluation and self-assessment of ICFR by means of SAP GRC internal control reporting tool.
This training was delivered to 57 people belonging to HR, Control, Finance, Procurement, Operations, and Legal.

F.2. Assessment of Financial Information Risks

Report on at least the following:

F.2.1. What are the principle characteristics of the risk identification process, including error and fraud risk, as regards to:

<u>Whether the process exists and is documented.</u>

The goal of the evaluation process for financial risks is to establish and maintain an efficient process for identifying, analyzing and managing risks impacting the preparation of the Financial Statements.

At Indra, the identification and evaluation of risks is a continuous process. The process of risk management consists in the following levels of participation:

- The Board of Directors reviews supervision by the Audit and Compliance Committee of the risk management and control policy and internal control systems of the Company.
- The Global Risk Department does periodic reviews of the corporate risk model.
- Those in charge of each functional area and other Professionals directly involved in the risk management process under their area of responsibility.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

For each process and sub process identified as significant, a matrix is created which includes the following information:

Identification and description of critical risks.

- Risks for each process are to be described specifically and later classified in accordance with the Indra Risk Inventory, which is periodically updated and evaluated based on risk management implemented by the Company.
- The identification of risks should take into account all of the risks which impact the process of creating financial documents, among them
  - Strategic risks associated with the definition of objectives and structure of the environment, including external fraud.
  - Operational risks which include, among other things, those related to process efficiency and efficacy, key personnel, productivity and hiring, internal communication, assignment of resources, integrity of information and business continuity.
  - Financial risks related to accounting of operations, presentation of financial information, or operational tax strategy.
  - Compliance risks associated with regulations both external (legal, environment, tax) and internal (ethics codes).
- Identification of the objectives of the financial information associated with each epigraph/ process/sub process. Includes the objectives of the financial information associated with each critical risk (existence and occurrence, integrity, assessment, presentation, breakdown and comparability, rights and duties).
- Identification of critical control activities. For each critical risk identified, a control activity should be designed and implemented to mitigate it.

<u>If the process covers all of the objectives of financial information, (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.</u>

Within the objective of ensuring the reliability of Financial Information, the following objectives regarding financial information are taken into account on a permanent basis in the risk identification and accounting error control process:

- Existence and Occurrence: Transactions, conditions and events are effectively captured in the financial information and recorded at the right time.
- Integrity: Information reflects the totality of transactions, conditions and events where the entity is an affected party.
- Fair Value: Transactions, conditions and events are recorded and valued in accordance with applicable rules.
- Presentation, Breakdown, and Comparability: Transactions, conditions and events are classified, presented and detailed in the financial information in accordance with applicable rules.
- Rights and Obligations: The Financial Information reflects, on the effective date, rights and obligations corresponding to assets and liabilities in accordance with applicable rules.

Additionally, for each control activity, the following information is detailed in the matrix:

- Person responsible for the control
- Control frequency
- Procedure and/or application where it may be found
- If the control is automatic and/or manual
- If the control is preventative or detective
- If the control mitigates the risk of fraud

The ICFR is formalized, therefore, as a body of procedures and matrices.

Information detailed in the matrices is updated annually.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Existence of a process for determining the scope of consolidation, taking into account, among other characteristics, the existence of complex business structures or special purpose entities.

The Company maintains a continuously updated company registry which contains all of the equity interests of any type of the Group, whether the interest is direct or indirect, as well as any entity over which the group may exercise control independent of the legal means by which such control may be exercised including, should they exist, shell companies as well as special purpose entities.

Management and update of this registry is done in accordance with procedures dictated by the Company Guideline Consolidación y Elaboración de la Información Financiera ("Consolidation and Creation of Financial Information").

The scope of consolidation at Indra Group is determined monthly by Administration Department in the form of information available in the company registry in accordance with principles contained in International Accounting Standards.

If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.

The process of identifying risks of error in financial information takes into account the impact that other types of risk may have on them, which are identified, evaluated and managed by various corporate units.

Risks are classified in the following fashion:

Compliance Risks

Associated with non-compliance with laws and rules of general application in all of the markets in which Indra operates, fundamentally in the area of crime and fraud prevention and legal obligations which arise from Indra Group's operations. Tax risks are included in this section.

- Legal
- Regulatory

Strategic Risks

Related to difficulty in adapting to the environment or market within which Indra operates, including those which arise from being present in particular countries or geographic zones. These risks may be classified as:

- Cultural change and focus on profitability
- Market dynamics

Financial Risks

These arise from fluctuations in financial markets and/or values of goods and services which affect the cost of doing business, including areas related to managing exchange rates, liquidity risk or interest rates, as well as credit risk related to the possibility of a contract party not fulfilling its obligations and producing an economic or financial loss for Indra. These risks can be classified as:

- Accounting and reporting
- Markets

Operational Risks

Arise from potential threats associated with projects and services, which make it necessary for those in charge of projects to take prophylactic measures necessary to manage their possible effects, from the perspective of drafting and negotiating contracts as well as their execution and delivery.

Included are technology risks related to information systems.

These risks can be classified as:

- Procurement
- Project management
- Human resources
- Systems

The outline of these risks is mapped to controls within the ICFR model where for each of them it is determined which control applies to the risk and if the risk of fraud can be mitigated with the control.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Which governing body within the company supervises the process?

Oversight of the process of identifying financial information risks is done by the Audit and Compliance Committee and delegated to Internal Audit in accordance with its supervisory mandate within the ICFR.

F.3. Control Activities

Report on whether the Company has at least the following, describing their main characteristics:

F.3.1. Review and authorization procedures for financial information published to the stock markets and a description of the ICFR, indicating those responsible, as well as documentation describing the flow of activity and controls (including those relating to the risk of fraud) of the various types of transactions which may materially affect the financial statements, including financial closing procedures and the specific review of judgments, estimates, valuations and relevant forecasts.

Indra provides quarterly and semi-annual financial information to the securities market. This financial information is prepared by the Consolidation Department, under the supervision of the Finance Department, which performs certain control activities to ensure the reliability of such information.

Additionally, the Investor Relations Department and the Department of Administration, part of the Finance Department, together with the Control, Organisation and Process Department, analyze and oversee created information before publication to third parties by drafting management reports and by the monitoring of indicators.

The CFO analyzes these reports and provisionally approves them for submission to the Audit and Compliance Committee.

The Audit and Compliance Committee oversees the financial information that is presented, and also makes periodic requests for analysis of specific matters, as well as detail of occasional financial transactions which, because of their importance, require a greater degree of scrutiny. Upon closing the fiscal year, the Audit and Compliance Committee also receives information prepared by the Company's external auditors on the results of their work.

Finally, the Audit and Compliance Committee reports its findings to the Board of Directors regarding the financial information that, once approved by the Board of Directors, is to be published to the securities markets.

Indra has a Model of Internal Control of Financial Reporting based on the COSO methodology and compliant with COSO II. The model has the following goals:

- Effectiveness and efficiency of operations
- Adequacy and reliability of financial information
- Compliance with applicable laws and regulations

Implementation of this framework seeks to provide reasonable security in achievement of the objectives of the organization.

This framework consists of a total of 5 components and 17 principles, which contain the fundamental concepts associated with each component.

In adapting to the Framework, a process was carried out for verifying that each of the 5 components of the internal control system were present and operating adequately in the organisation, and that the 5 components operate in a coordinated fashion.

No significant deficiencies were detected in the verification process and therefore the ICFR model is considered to be working properly in accordance with COSO.

There is a direct relationship between the components, principles, and organisational structure. Therefore, before any significant change is done in the organisation, a study of its impact on the model is carried out.

The ICFR model has a risk and financial control matrix which includes business processes relevant to preparation of the financial statements for the company, General IT Controls, and Entity Level Controls. The matrix is broken down into the following cycles:

- Closing and Consolidation
- Procurement
- Impairment
- Tax
- R & D
- Fixed Assets
- Personnel
- Provisions
- Reporting
- Net Equity
- Treasury

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

- Joint Partnerships
- Sales and Projects
- General IT Controls

Information contained in the financial risk and control matrix is documented in the SAP GRC Process Control tool which is updated any time a change occurs which is significant enough to reduce the reliability or completeness of financial information. This tool allows self evaluation of control activities carried out by those responsible for them.

Within the COSO framework, the organization takes into account the probability of fraud when assessing risks associated with achievement of objectives.

Within the Global Risk Management Model, there is a periodic risk identification process which considers fraud risk. This process includes a review of methodology and the fraud risk evaluation considers fraudulent information, loss of assets and improper conduct.

Additionally, preventive and detective controls have been established in the organization to mitigate these risks. These controls are included in the internal control tool and are periodically self-evaluated by the executors of the same.

The ICFR at Indra depends on the following fundamental concepts:

a) Entity Level Controls ("ELC") are those components of cross functional control that ensure an adequate level of internal control at Indra, that perform a mitigating control function when necessary, and which place special emphasis on the following components:

- Environmental control
- Risk evaluation
- Control activities
- Information and communication
- Oversight Activities

b) Processes:

Indra has a Process/Sub process Map grouped in the following 4 categories:

- Strategic: Processes for analyzing the needs and constraints of the Company, the market and shareholders, by which the business develops its strategies and defines objectives.
- Key: Processes essential to the conduct of business, which directly impact the delivery of services and the satisfaction of the end user.
- Support: Those processes which provide the services, means and support necessary so that Key processes may be accomplished.
- Evaluation, Assurance and Improvement: Processes necessary for the control and improvement of the management system.

These four categories contain the processes/sub processes which affect practically all of the organizational units at Indra.

Control Management, Operations and Processes Department manages and updates the Process Map.

Significant processes are identified based on the existence of specific risks, considering those risks significant based on their potential impact on financial information; all cases of potential error or fraud are considered significant.

The processes with the most impact on creation of financial information are included in the financial risk and control matrix.

The basic components of each of these processes are the following:

- Control Objectives: Needs for control that must be satisfied in each step of the business cycle or process, in accordance with internal control definitions. In this way, they are used to verify and evaluate the accuracy of accounting and other information and determine whether all company financial information is provided to its end users, and cover the areas of completeness, closing, delivery, posting, validity and valuation.
- Risk: It is possible that an event or action may affect the ability of the organization to meet its financial information objectives and/or successfully realize its strategies.
- Control Activities: Policies, procedures and practices applicable by Company personnel, application systems, and other resources in place to ensure that control objectives are reached and that risk mitigation strategies are executed. Process control activities are to be incorporated in operational processes and serve as a means for appropriately managing risk and are focused on its prevention, detection and correction. In the specific case of IT, control activities are known as General IT Controls ("GITC"). Control activities are designed to be preventative or detective and manual (human based) or automatic (machine based).

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

During 2017 controls for the various cycles contained in the model were redefined, the objective being presence of those controls in all of the Indra companies. This control redesign included updating descriptions, proper definition of inputs, evidence of control, and processes to carry out.

An exhaustive analysis of the various cycles was performed, with the objective of identifying and implementing a series of key controls based upon the risks presented by different financial information processes and subprocesses. In that way it is reasonably sure that we are mitigating said risk in an adequate manner.

The ICFR control matrix consists of 191 process level controls, 48 entity level controls, and 90 GITCs, 64% of which have been defined as key controls and 36% of which are considered standard controls. Additionally, responsibility for these controls has been assigned at the Corporate and individual company level.

Within the assessment process for the internal control model by means of the corporate SAP GRC tool, a project of implementation of control self-evaluation is being carried out by those responsible for executing those controls. The evolution of this process permits strengthening of the system, monitoring control functionality and adopting a new, more dynamic and proactive Internal Control management model.

Process control and GITC activities ensure that all of the control objectives are followed during the ordinary course of business and for every section of the financial statements. All information relative to the Internal Control model is contained on the Indra intranet.

Senior staff of Internal Audit perform an annual audit of the ICFR.

Any weaknesses in control found in the ICFR will be included in a specific action plan for each one. Internal Audit will monitor, control, and report on them to the Audit and Compliance Committee until they are corrected.

Specific review of the relevant judgments, estimations, valuations and projections used to quantify some assets, liabilities, revenues, expenses and commitments stated and/or broken out in the financial information will be carried out by the Finance Department with the help of the executive level department affected. Hypotheses and estimates based on business outlook will be reviewed and analyzed together with the executive level departments for Markets at Indra.

F.3.2. Internal IT control policies and procedures (access security, change controls, their operation, operational continuity, and segregation of duties, among others) which support relevant processes within the entity and relate to the creation and publication of financial information.

The Information Systems department of Indra is responsible for delivery of quality IT services as business support in the markets and territories in which Indra operates.

Management of services is based on ISO/IEC 20000, provides Indra with a guarantee of quality, efficacy in providing capacity, availability, security and support, by applying the principles of continuous improvement.

the Company has available an Information Security area reporting to the Systems area and whose purpose it is to be vigilant regarding security of all IT processes, ensuring integrity, availability, authenticity, confidentiality, and traceability.

Among its functions are definition, implementation and monitoring of the Information Security model established at Indra and based on ISO/IEC 27001 standards, with the goal of maintaining the security of all assets and adoption of the most effective controls and procedures consistent with business strategy. This is what animates the Information Security Policy.

Information Security Policy at Indra, published on the intranet, has as its objectives management of IT security and strategic alignment with business goals, guarantee of the confidentiality, completeness and availability of information, and all of the activities involved in achieving these objectives. This policy is mandatory at all Markets and Areas of the company, as well as at all of the businesses, offices and affiliates of Indra, and knowledge of and compliance with it is obligatory for any person who makes use of the Information Systems (employees, interns, third parties, etc.). This Policy applies at all information development stages (generation, distribution, storage, handling, transfer and destruction) of the Systems which process it. It entails all of the information systems and services at Indra and all support servers as well as the environment and applications which affect business processes of the Company, covering therefore relevant processes in the creation and publication of financial information.

Information security is an integral part of all of the processes in the organization and is included in the strategic planning for the Company. Information security strategy as defined by Indra is based on five fundamental pillars:

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

- Organization of information security: Indra has a defined Global Security Governance Model which ensures coordination between representatives of different countries and markets for the Company, and the proper coordination and organization of information security.

- The normative framework of information security: Compliance is mandatory for all Indra companies, and has the goal of managing information security and strategic alignment with business objectives, guaranteeing confidentiality, integrity and availability of information. It is structured as a function of the protection environments: Protection of Information, applications, systems, networks and infrastructures; and responsibility profiles: Those responsible for Projects/programs, Developers, Systems Administrators and Users.

- Awareness and training in information security: One of the basic pillars of information security. Awareness is raised during all employment phases by means of multiple activities which range from awareness of new additions to annual training programs which include specific information security courses for all levels.

- Technology and security controls: Information security is a comprehensive solution which encompasses all of the security controls oriented to physical security and the environment as well as logical security controls.

- Audit process and compliance follow-up: The process of verification of compliance and is done internally by means of continuous supervision and monitorization processes, and run round the clock with the goal of identifying possible security alerts or violations.

Consistent with the Security Policy, Indra has implemented an Internal Control model for the IT area.

The Internal Control model at Indra covers IT processes which make up the IT environment, architecture and infrastructure as well as applications that affect transactions which directly affect primary business processes and therefore has an impact on financial information and Company closing procedures.

The control model for systems which support creation and publication of financial information is based on COSO and consists of a General IT Controls matrix as well as a series of policy and procedures which ensure the integrity, availability and authenticity of information communicated to the markets. This is accomplished through establishment of controls built around the following areas:

- Access to programs and data which include activities related to:
  - Restriction of access to systems, thereby avoiding unauthorized access or program modifications which might affect the integrity, completeness and reliability of financial information.
  - Security in installations which house the systems, guaranteeing that access to them is limited to authorized personnel.
  - A proper segregation of functions, with the goal of guaranteeing secure access to accounting information systems.

- Acquisition and maintenance of, and changes to systems which include activities related to:
  - Changes in information systems are authorized, tested and approved before being put into place.
  - Changes are managed properly in order to avoid interruptions or unauthorized modifications.

- Systems operations, which include activities related to:
  - Availability of information, ensuring that financial data are complete, valid and accurate.
  - Proper incident management, allowing rapid resolution and minimum impact.
  - Monitorization of operations, ensuring that they are executed thoroughly and on time. In the event of an incident, such is resolved allowing work to restart and be correctly executed.

F.3.3.Internal control policies and procedures intended to guide the management of subcontracted activities and those of third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, that may materially affect financial statements.

Indra has available control and follow up mechanisms for subcontractor activities with the goal of monitoring and minimizing business risk for the Company. Among others, there is an internal procedure for hiring external advisors which establishes the level of approval required as a function of the amount involved. Results or reports on contracts for accounting, tax or legal services are supervised by the head of Finance and Procurement and by the head of the Legal Department and other departments when deemed necessary.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

Within the process relative to the creation of financial information, some companies have outsourced the payroll process. Additional to generally established controls, a series of control activities have been implemented for third party subcontracting, which may be grouped as a function of the following processes:

- Process: 1. Delivery of Service
- Process: 2. Continuity of Service
- Process: 3 Compliance
- Process: 4. Governance

F.4 Information and Communication

State whether the Company has at least the following, describing its principle characteristics:

F.4.1. A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organization, as well as an up to date accounting policy manual distributed to the business units through which the entity operates.

Responsibility for application of the Accounting Policies of the Company is the same for the entire geographic reach of Indra and is found in Treasury and Finance.

The Department of Administration keeps all those responsible for preparing financial information in the various business units of the Group informed of changes in rules, resolves doubts when they exist and receives information from companies in the Company necessary to assure consistent application of Accounting Policies of the Group and to determine the effect of application of new accounting rules.

On those occasions when application of an accounting rule is especially complex, the Finance Department of Group informs the external auditors of the conclusions drawn from the Company's accounting analysis and solicits their opinion regarding the conclusions drawn.

Accounting policies at Indra are developed based upon International Norms for Financial Information adopted by the European Union and found in a document called Manual de Contabilidad ("Accounting Manual"). This document is analyzed periodically by the Finance Department and is published on the Intranet.

F.4.2. Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

Indra has a defined formal procedure for the preparation of financial information, which includes closing of the books for all of the group companies as well as the consolidation process for the Company. The fact that the major companies in the group use a common accounting system platform (SAP), allows the guarantee of better control of standardized closing processes as well as controls over supervision of system access by different users, verifying that there is no conflict in access authorization either internally or for later review by the external auditor. Within the system there are controls (automatic, semiautomatic and manual) which permit validation and assurance of consistency of handled information.

Existence of the same account charts for reporting for all of the entities in the group, a specific closing calendar and subsequent reporting to the company matrix, as well as the use of obligatory closing exchange rates when converting the balance sheet and the profit and loss statements to the euro for reporting, work together efficiently to improve the quality level and homogeneity of information.

The uploading of monthly reporting information is carried out by the same companies in Datamart. This tool permits centralization of all of the resulting financial information of Indra companies in a single system. Most of the time, input of the information to the system is done automatically from the group's computerized financial system (SAP).

F.5 Supervision of System Performance

Describe at least the following:

F.5.1. The activities of the Audit Committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the Committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the fiscal year and the procedure through which the person responsible for doing the assessment reports on its results, whether the Company has an action plan describing possible corrective measures, and whether its impact on financial reporting is considered.

The Audit and Compliance Committee supervises the proper functioning of ICFR through Internal Audit, and has evaluated its design and operational effectiveness.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

The scope of ICFR was determined using a model for scope applied to all subsidiaries. This model is designed to determine the most important processes to Indra.

The model for scope takes into account quantitative factors (materiality of account headings) as well as qualitative ones (the degree of internal control risk, internal audit experience risk, and account heading risk). Based on these factors, the critical cycles for financial information were defined and reviewed by country and company.

The scope of the ICFR evaluation performed during the fiscal year includes the areas of Brazil, Chile, Colombia, Spain, Mexico, Italy, Norway, Saudi Arabia and Bahrain, the goal of the review being the companies in each of the areas of greatest impact based on a series of qualitative and quantitative factors, amounting to thirteen companies.

Said scope was approved by the Audit and Compliance Committee.

The internal audit function is carried out by Internal Audit of the group, which reports to the Audit and Compliance Committee. This hierarchical structure is designed to permit Internal Audit to remain structurally independent and promote direct communication to and from the Audit and Compliance Committee.

Internal Audit, through a team located at Corporate as well as in Mexico, reasonably ensures performance of the internal control system.

As regards the ICFR in particular, Internal Audit performs an annual review of the design and effectiveness of the control activities regarding financial information. Pursuant to these reviews, Internal Audit sends reports on possible shortcomings in internal control that they have detected to those responsible for these activities, to Senior Management, and to the Audit and Compliance Committee, as well as action plans adopted by the Company for their mitigation.

Control supervision follows the following rules:

- For controls which undergo a monthly self-evaluation, two types of review are performed, one based on supervision of the evaluation carried out by the control owners and the other with the goal of verifying the tests and validations executed by the control owner.
- Evidence has been obtained for the rest of the controls and necessary tests carried out to properly understand their effectiveness.

All the controls functioned as designed, but some control weaknesses and opportunities for improvement which did not significantly affect the quality of financial information were detected and have resulted in action plans following the policy of continuous improvement which characterizes Indra Group. During periodic tests of the ICFR, the Internal Audit Department will test implementation of said action plans.

F.5.2. If there is a procedure by which the account auditor (in accordance with that contained in the Normas Técnicas de Auditoría (“Auditing Standards”), internal audit and other experts may communicate with senior management and the Audit Committee or Managers of the entity regarding significant weakness in internal control identified during the review of the annual accounts or any others they have been assigned. Additionally, state whether a plan of action is available for correcting or mitigating any weaknesses found.

All of the deficiencies detected by Internal Audit during the course of their work were subject to recommendations and action plans agreed to with the audit subject. Internal Audit supervises the implementation of agreed upon actions and reports their status to the various governing bodies of Indra (primarily the Audit and Compliance Committee).

The procedure for discussing identified significant weaknesses in internal control is that of meetings between the Audit and Compliance Committee and the external auditors, internal auditors, and the department responsible for producing financial information.

Consistent with this, the account auditor meets annually with this Committee for the purpose of presenting recommendations related to weaknesses in internal control identified during the process of reviewing the annual financial statements.

F.6. Other Relevant Information

N/A

F.7. External Auditor´s Report

Report from: Deloitte, S.L.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

F.7.1. If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

With the goal of improving the transparency and quality of public information it sends out, Indra has gone beyond its legal obligations and the recommendations of the Working Group on Internal Control of Financial Information, and:

- prepared this description of its ICFR following the 16 basic indicators recommended in Section III of the Working Group Document;
- has implemented a bottom-up certification system whereby those responsible for significant processes in the financial information area certify the validity and effectiveness of those processes and controls which fall within their area of responsibility, ultimate responsibility resting with the finance director.
- issued a certification verified by the CEO and the CFO in which they explicitly acknowledge: (i) their responsibility for establishing and maintaining an adequate ICFR for the entity, specifying the internal control framework used in order to evaluate the effectiveness of the ICFR (Internal Control – Internal Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission – COSO -) and (ii) that the ICFR of Indra is effective as of the close of fiscal 2017.
- considered it appropriate to request that the external auditor issue a report in which the auditor renders an opinion, within a reasonable degree of certainty based upon generally accepted auditing standards and using as a reference a generally recognized internal control framework, whether the design and performance of the ICFR of Indra is effective as of the close of fiscal 2017, which is attached to this Annual Report on Corporate Governance.

As stated earlier, there exists no legally binding regulation which establishes the minimum requirements for companies in describing their ICFR.

Future regulations issued regarding information about ICFR that listed companies must publish may cause a change in the information contained in this report as they relate to breakdown or informational requirements.

G. EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Specify the Company's level of compliance with recommendations from the Unified Code of Good Governance.

In the event that a recommendation is not followed or followed only partially, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company´s acts. General explanations are not acceptable.

1. That the Bylaws of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

Complies ☑ Explanation ☐

2. That when the parent company and a subsidiary are listed on the stock exchange, both should publicly and specifically define:

a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other Group companies;

b) The mechanisms in place to resolve any conflicts of interest that may arise.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ☑

3. That, during the course of the annual shareholders' meeting, as an adjunct to the distribution of a written annual report on corporate governance, that the chairman of the board of directors make a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:

a) Changes which have occurred since the last Annual Shareholders' Meeting.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

b) Specific reasons why the company did not follow any of the recommendations of the Code of Corporate Governance and, if so, the alternative norms which were followed instead.

Complies ☑ Complies Partially ☐ Explanation ☐

4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing abuse of markets and gives equal treatment to similarly situated shareholders.

And that the company has made such policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

Complies ☑ Complies Partially ☐ Explanation ☐

5. That the Board of Directors should not propose to the Annual Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights that the company immediately publish reports on its web page regarding said exclusions as referenced in applicable corporate law.

Complies ☑ Complies Partially ☐ Explanation ☐

6. That listed companies which draft reports listed below, whether under legal obligation or voluntarily, publish them on their web page with sufficient lead time before the Annual Shareholders' Meeting, even when their publication is not mandatory:

a) Report regarding the auditor's independence.

b) Reports regarding the workings of the audit committee and the nomination and compensation committee.

c) Report of the audit committee regarding related party transactions

d) Report on the corporate social responsibility policy.

Complies ☑ Complies Partially ☐ Explanation ☐

7. That the company transmit in real time, through its web page, the proceedings of the Annual Shareholders' Meetings.

Complies ☑ Explanation ☐

8. That the Audit Committee ensure that the Board of Directors present financial statements in the Audit Report for the Annual Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the Audit Committee and the auditors clearly explain to the shareholders the content and the scope of said qualifications or reservations.

Complies ☑ Complies Partially ☐ Explanation ☐

9. That the Company permanently maintain on its web page the requirements and procedures for certification of share ownership, the right of attendance at the Annual Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies ☑ Complies Partially ☐ Explanation ☐

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the Annual Shareholders' Meeting, the company:

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

a) Immediately distribute the additions and new proposals.

b) Publish the model attendance credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.

c) Submit all of these agenda items or alternate proposals to a vote and apply the same voting rules to them as are applied to those drafted by the board of directors including, particularly, assumptions or default positions regarding interpretation of votes.

d) That after the Annual Shareholder Meeting, a breakdown of the results of said additions or alternative proposals be communicated.

Complies [ ] Complies Partially [ ] Explanation [ ] Not Applicable [x]

11. That, in the event the company intends to pay for attendance at the Annual Shareholders' Meeting, that it establish in advance a general policy of long term effect regarding such payments.

Complies [ ] Complies Partially [ ] Explanation [ ] Not Applicable [x]

12. That the Board of Directors complete its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it be guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximization of the business' economic value.

And that in pursuit of the company's interest, that in addition to complying with applicable law and rules and in engaging in behaviour based in good faith, ethics and a respect for commonly accepted best practices, that it seek to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies [x] Complies Partially [ ] Explanation [ ]

13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.

Complies [x] Explanation [ ]

14. That the Board of Directors approve a selection policy for directors that:

i) Is concrete and verifiable.

ii) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the board of directors.

iii) Favours diversity in knowledge, experience and gender.

That the resulting prior analysis of the needs of the board of directors is recompiled in the supporting report from the appointment committee published upon call of the annual shareholders' meeting submitted for ratification, appointment or re-election of each director.

And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors represent, at a minimum, 30% of the total number of members of the board of directors.

The appointment committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Report on Corporate Governance.

Complies [x] Complies Partially [ ] Explanation [ ]

15. That proprietary and independent directors constitute a substantial majority of the board of directors and that the number of executive directors be the minimum necessary, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

Complies [x] Complies Partially [ ] Explanation [ ]

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

16. That the percentage of proprietary directors divided by the number of non-executive directors not be greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

a) In companies with high market capitalization in which interests that are legally considered significant are minimal.

b) In companies where a plurality of shareholders represented on the board of directors is not related to one another.

Complies ✓ Explanation

17. 17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company is not a high market capitalization company or in the event that it be a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represent at least a third of the total number of directors.

Complies ✓ Explanation

18. That companies publish and update the following information regarding directors on the company website:

a) Professional profile and biography.

b) Any other boards to which the director belongs, regardless of whether the companies are listed, as well as any other compensated activities engaged in, regardless of type.

c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.

d) The date of their first appointment as a director of the company's board of directors, and any subsequent re-election.

e) The shares and options they own.

Complies ✓ Complies Partially Explanation

19. That the annual report on corporate governance, after verification by the appointment committee, explaining the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies Complies Partially Explanation Not Applicable ✓

20. That proprietary directors representing significant shareholders must resign from the board if the shareholder they represent alienates its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder

Complies Complies Partially Explanation Not Applicable ✓

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the bylaws unless the Board of Directors finds just cause and a prior report has been prepared by the appointment committee. Specifically, just cause is considered to exist if the director takes on new duties or obligates himself or herself to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her position, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, joint venture or similar transaction entailing a change in the shareholding structure of the company, provided that such changes in the structure of the board are the result of the proportionate representation criteria set forth in Recommendation 16.

Complies ☑ Explanation ☐

22. That companies establish rules requiring that directors inform the board of directors and, where appropriate, resign from their positions, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the crimes set out in corporate law, the board of directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her position. And that the board of directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies ☑ Complies Partially ☐ Explanation ☐

23. That all directors clearly express their opposition when they consider any proposal submitted to the board of directors to be against the company's interests. This applies especially to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the board of directors.

Furthermore, when the board of directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next Recommendation.

This recommendation also applies in the case of the secretary of the board of directors, despite not being a director.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ☑

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the board of directors. Irrespective of whether the resignation has been reported as a material event, it must be included in the Annual Corporate Governance Report.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ☑

25. That the Appointment Committee ensure that non-executive directors have sufficient time in order to properly perform their duties.

And that the board rules establish the maximum number of company boards on which directors may sit.

Complies ☑ Complies Partially ☐ Explanation ☐

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the fiscal year and allowing each director individually to propose agenda items which do not appear originally.

Complies ✓ Complies Partially ☐ Explanation ☐

27. That director absences occur only when absolutely necessary and be quantified in the annual report on corporate governance, and when absences occur, that the director deliver a proxy with instructions.

Complies ✓ Complies Partially ☐ Explanation ☐

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the board of directors, that upon request by the protesting party such concerns be included in the minutes.

Complies ✓ Complies Partially ☐ Explanation ☐ Not Applicable ☐

29. That the company establish adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, outside advice at company expense.

Complies ✓ Complies Partially ☐ Explanation ☐

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require.

Complies ✓ Complies Partially ☐ Explanation ☐

31. That the agenda for meetings clearly indicate those matters about which the Board of Directors are to make a decision or resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the board of directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall by duly recorded in the minutes.

Complies ✓ Complies Partially ☐ Explanation ☐

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies ✓ Complies Partially ☐ Explanation ☐

33. That the Chairman, as the one responsible for the efficient workings of the board of directors, in addition to carrying out his duties required by law and the bylaws, should prepare and submit to the board of directors a schedule of dates and matters to be considered; organize and coordinate the periodic evaluation of the board as well as, if applicable, the chief executive of the company; be responsible for leading the board and the effectiveness of its work; ensure that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies ✓ Complies Partially ☐ Explanation ☐

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

34. That when there is a coordinating director, the bylaws or the board rules should confer upon him the following competencies in addition to those conferred by law: preside over the board of directors in the absence of the chairman and vice chairs, should there be any; reflect the concerns of non-executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the Chairman.

Complies ✔ Complies Partially ☐ Explanation ☐ Not Applicable ☐

35. That the secretary of the Board of Directors pay special attention that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the Company.

Complies ✔ Explanation ☐

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:

a) The quality and efficiency of the Board of Directors' work.

b) The workings and composition of its committees.

c) Diversity of membership and competence of the Board of Directors.

d) Performance of the Chairman of the Board of Directors and the chief executive officer of the Company.

e) Performance and input of each director, paying special attention to those in charge of the various committees of the Board.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointment committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the Appointment Committee.

Business relationships between the consultant or any member of the consultant's group and the company or any company within its group shall be broken down in the Annual Report on Corporate Governance.

The process and the areas evaluated shall be described in the Annual Report on Corporate Governance.

Complies ✔ Complies Partially ☐ Explanation ☐

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies ✔ Complies Partially ☐ Explanation ☐ Not Applicable ☐

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the Executive Committee and that all members of the Board of Directors receive a copy of the minutes of Executive committee meetings.

Complies ✔ Complies Partially ☐ Explanation ☐ Not Applicable ☐

39. That the members of the Audit Committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies ✔ Complies Partially ☐ Explanation ☐

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

40. That under the supervision of the Audit Committee, there be a unit which is in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chair of the board or of the Audit Committee.

Complies ☑ Complies Partially ☐ Explanation ☐

41. That the person in charge of the group performing the internal audit function present an annual work plan to the Audit Committee, report directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each fiscal year.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

42. That in addition to that contained in applicable law, the Audit Committee be responsible for the following:

a) With regard to information systems and internal control:

- Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.
- Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re-election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
- Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

b) With regard to the external auditor:

- In the event that the external auditor resigns, examine the circumstances which caused said resignation.
- Ensure that the compensation paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.
- Insist that the company file a Report of Material Fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.
- Ensure that the external auditor hold an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.
- Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding auditors' independence.

Complies ☑ Complies Partially ☐ Explanation ☐

43. That the Audit Committee may require the presence of any employee or manager of the Company, even without the presence of any other member of management.

Complies ☑ Complies Partially ☐ Explanation ☐

44. That the Audit Committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

45.That the risk management and control policy identify, at a minimum:

a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including among financial or economic risks, contingent liabilities and other off balance sheet risks.

b) Fixing of the level of risk the company considers acceptable.

c) Means identified in order to minimize identified risks in the event they come to pass.

d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks

Complies ☑ Complies Partially ☐ Explanation ☐

46. That under the direct supervision of the Audit Committee or, if applicable, of a specialized committee of the Board of Directors, there exists an internal control and management function delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.

b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.

c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.

Complies ☑ Complies Partially ☐ Explanation ☐

47. That members of the Appointment and Compensation Committee -- or of the Appointment Committee and the Compensation Committee if they are separate - are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to complete and that the majority of said members are independent directors.

Complies ☑ Complies Partially ☐ Explanation ☐

48. That high market capitalization companies have formed separate Appointment and Compensation committees.

Complies ☐ Explanation ☑ Not Applicable ☐

The Company has not considered it convenient to separate the current Nomination, Compensation and Corporate Governance Committee into two committees for the following reasons:

- The members of the Nomination, Compensation and Corporate Governance Committee have the knowledge and experience necessary in order to deal with issues relevant to both committees.
- The volume of annual work is manageable in one committee.
- It would unnecessarily increase the number of committees and therefore the total compensation paid to the Board given that there is a fixed amount set for membership on the various administrative bodies.

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

49. That the Appointment Committee consult with the Chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the Appointment Committee to consider potential candidates he or she considers appropriate to fill a vacancy on the board of directors.

Complies ☑ Complies Partially ☐ Explanation ☐

50. That the Compensation Committee exercise its functions independently and that, in addition to the functions assigned to it by law, that it be responsible for the following:

a) Propose basic conditions of employment for senior management.

b) Verify compliance with Company compensation policy.

c) Periodically review the compensation policy applied to directors and senior managers, including compensation involving the delivery of stock, as well as guaranteeing that individual compensation be proportional to that received by other directors and senior managers.

d) Watch out that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.

e) Verify information regarding compensation paid to directors and senior managers contained in the various corporate documents, including the annual report on director compensation.

Complies ☑ Complies Partially ☐ Explanation ☐

51. That the Compensation Committee consult with the Chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies ☑ Complies Partially ☐ Explanation ☐

52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they be consistent with those which apply to legally mandated committees in accordance with the recommendations above, including:

a) That they be comprised exclusively of non-executive directors, with a majority of them independent.

b) That their chairmen be independent directors.

c) That the Board of Directors select members for these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the board of directors occurring after the committee's last meeting.

d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.

e) That their meetings be recorded and the minutes be made available to all directors.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ☑

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the board of directors, which may be the audit committee, the appointment committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the board of directors pursuant to its powers of self-organization, to which shall be specifically given at a minimum the following responsibilities:

a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.

b) Supervision of the communication strategy and relationship with shareholders and investors, including small and medium sized shareholders.

c) The periodic evaluation of the adequacy of the company's corporate governance system, with the goal that the company promote social interest and take into account, where appropriate, the legitimate interests of other stakeholders.

d) Review of the company's corporate responsibility policy, ensuring that it is oriented towards value creation.

e) Follow-up of social responsibility strategy and practice, and evaluation of the degree of compliance.

f) Supervision and evaluation of the way relationships with various interest groups are handled.

g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.

h) Coordination of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.

Complies ☑ Complies Partially ☐ Explanation ☐

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific interest groups and identifies at a minimum:

a) The objectives of the social corporate responsibility policy and the development of tools to support it.

b) Corporate strategy as it relates to sustainability, the natural environment and social issues.

c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of illegal behaviour.

d) Means or systems for monitoring the results of application of specific practices described in the immediately preceding paragraph, associated risks, and their management.

e) Means of supervising non-financial risk, ethics, and business behaviour.

f) Communication channels, participation and dialogue with interested groups.

g) Responsible communication practices which impede the manipulation of data and protect integrity and honour.

Complies ☑ Complies Partially ☐ Explanation ☐

55. That the company reports, in a separate document or within the management report, regarding matters related to corporate social responsibility, following internationally recognized methodologies.

Complies ☑ Complies Partially ☐ Explanation ☐

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

56. That director compensation be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.

Complies ☑ Explanation ☐

57. That only executive directors receive compensation linked to corporate results or personal performance, as well as compensation in the form of delivery of shares, options or rights to shares or instruments whose value is indexed to share value, or long term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be delivered to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares which the director may of needs sell in order to meet the costs related to their acquisition.

Complies ☑ Complies Partially ☐ Explanation ☐

58. That as regards variable compensation, the policies incorporate limits and administrative safeguards in order to ensure that said compensation is fairly consonant with the work performance of the recipients and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.

And, in particular, that variable compensation components:

a) Are linked to predetermined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.

b) Promote sustainability of the company and include non-financial criteria that are geared toward creating long term value, such as compliance with rules and internal operating procedures and its risk management and control policies.

c) Are based upon balancing short, medium and long term objectives, permit the reward of continuous achievement during a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-time, seldom occurring or extraordinary events.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

59. That a material portion of variable compensation components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

60. That compensation related to company results takes into account any reservations which may appear in the external auditors' report which would diminish said results.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

61. That a material portion of variable compensation for executive directors depend upon the delivery of shares or instruments indexed to share value.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

62. That once shares or options or rights to shares arising from compensation schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times annual fixed compensation, and the director may not exercise options or rights until a term of at least three years since their delivery has passed.

The forgoing shall not apply to shares which the director may of needs sell in order to meet the costs related to their acquisition.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable compensation components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual compensation and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

H. FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that have not been included in other sections of this report, but which are necessary in order to obtain a more complete and understandable picture of the structure and governance practices in the company or group, describe them briefly below.

2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

   Specifically, indicate whether the Company is subject to any corporate governance legislation different from than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. The company may also indicate whether it voluntarily complies with other ethical or best practice codes, whether international, industry based, or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010.

This Annual Corporate Governance Report was approved by the Board of Directors of the Company at the meeting held on 19 March 2018

Indicate whether any Directors voted against or abstained from voting on this report.

Yes ☐ No ☑

NAME OF DIRECTOR NOT VOTING FOR APPROVAL OF THIS REPORT	REASONS (OPPOSED, ABSTENTION, NON-ATTENDANCE)	EXPLANATION OF REASONS
-	-	-

APPENDIX

Deloitte.

INFORME INDEPENDIENTE REFERIDO AL SISTEMA DE CONTROL INTERNO SOBRE LA INFORMACION FINANCIERA (SCIIF)

A los accionistas de Indra Sistemas, S.A:

Alcance del Trabajo

Hemos realizado la revisión de la información relativa al Sistema de Control Interno sobre la Información Financiera (SCIIF) del Grupo Indra Sistemas (el "Grupo"), contenida en la Nota F del Informe Anual de Gobierno Corporativo correspondiente al ejercicio terminado el 31 de diciembre de 2017 adjunta.

El objetivo de dicho sistema es contribuir a que se registren fielmente las transacciones realizadas, y a proporcionar una seguridad razonable en relación a la prevencion o detección de errores que pudieran tener un impacto material en las cuentas anuales consolidadas.

Dicho sistema está basado en los criterios y políticas definidos por el Consejo de Administración de Indra Sistemas, S.A. de acuerdo con las directrices establecidas por el Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Un sistema de control interno sobre la información financiera es un proceso diseñado para proporcionar una seguridad razonable sobre la fiabilidad de la información financiera, de acuerdo con los principios contables y normas que le son de aplicación. Un sistema de control interno sobre la información financiera incluye aquellas políticas y procedimientos que: (i) permiten el mantenimiento de una forma precisa, y a un razonable nivel de detalle, de los registros que reflejan las transacciones realizadas, (ii) garantizan que estas transacciones se realizan únicamente de acuerdo con las autorizaciones establecidas, (iii) proporcionan una seguridad razonable de que las transacciones se registran de una forma apropiada para permitir la preparación de la información financiera, de acuerdo con los principios y normas contables que le son de aplicación y (iv) proporcionan una seguridad razonable en relación con la prevención o detección a tiempo de adquisiciones, usos o ventas no autorizados de activos de la compañía que pudiesen tener un efecto material en la información financiera. Dadas las limitaciones inherentes a todo sistema de control interno sobre la información financiera, pueden producirse errores, irregularidades o fraudes que pueden no ser detectados. Igualmente, la proyección a períodos futuros de la evaluación del control interno está sujeta a riesgos, tales como que dicho control interno resulte inadecuado a consecuencia de cambios futuros en las condiciones aplicables, o que en el futuro se pueda reducir el nivel de cumplimiento de las políticas o procedimientos establecidos.

Responsabilidad de los Administradores

El Consejo de Administración de Indra Sistemas, S.A. es responsable del mantenimiento del Sistema de Control Interno sobre la Información Financiera incluida en las cuentas anuales consolidadas y de la evaluación de su efectividad.

Nuestra Responsabilidad

Nuestra responsabilidad es emitir un informe de revisión independiente de seguridad razonable sobre la efectividad del Sistema de Control Interno sobre la Información Financiera (SCIIF) basándonos en el trabajo realizado.

Nuestro trabajo incluye la evaluación de la efectividad del SCIIF en relación con la información financiera contenida en las cuentas anuales consolidadas del Grupo Indra Sistemas al 31 de diciembre de 2017, elaboradas conforme a las Normas Internacionales de Información Financiera adoptadas por la Unión Europea y demás disposiciones del marco normativo de información financiera aplicable al Grupo Indra Sistemas.

Hemos realizado nuestro trabajo de acuerdo con los requisitos establecidos en la Norma ISAE 3000 Assurance Engagement Other than Audits or Reviews of Historical Financial Information emitida por el International Auditing and Assurance Standards Board (IAASB) de la International Federation of Accountants (IFAC) para la emision de informes de seguridad razonable.

Esta norma requiere la planificación y la realización de procedimientos y la obtención de evidencias suficientes que permitan reducir el riesgo del encargo a un nivel bajo aceptable de acuerdo con las circunstancias del mismo, y la emisión de una conclusión en términos positivos.

Independencia

Hemos realizado nuestro trabajo de acuerdo con las normas de independencia requeridas por el Código Ético emitido por el International Ethics Standards Board for Accountants (IESBA), basadas en los principios fundamentales de integridad, objetividad, competencia profesional, diligencia, confidencialidad y profesionalidad.

Deloitte mantiene, de acuerdo con el International Standard on Quality Control1 (ISQC1), un sistema global de control de calidad que incluye políticas y procedimientos documentados en relación con el cumplimiento de requisitos éticos, normas profesionales y regulación aplicable.

Conclusión

En nuestra opinión, el Grupo Indra Sistemas mantenía, al 31 de diciembre de 2017, en todos los aspectos significativos, un Sistema de Control Interno sobre la Información Financiera contenida en las cuentas anuales consolidadas efectivo, basado en los criterios y políticas definidos por el Consejo de Administración de Indra Sistemas, S.A. de acuerdo con las directrices establecidas por el Committee of Sponsoring Organizations of the Treadway Commission (COSO). Asimismo los desgloses contenidos en la información relativa al SCIIF que se encuentra incluida en la Nota F del Informe Anual de Gobierno Corporativo del Grupo Indra Sistemas al 31 de diciembre de 2017 están de acuerdo, en todos los aspectos significativos, con los requerimientos establecidos por la Ley de Sociedades de Capital, la Orden ECC/461/2013, de 20 de marzo y la Circular 7/2015, de 22 de diciembre por la que se modifica la Circular 5/2013 de 12 de junio de la Comisión Nacional del Mercado de Valores.

Tal y como se describe en la Nota F, el SCIIF no incluye controles sobre las sociedades que se integran en sus cuentas anuales consolidadas en las que no se ejerce, directa o indirectamente el control ya que las decisiones estratégicas de las actividades, tanto operativas como financieras, requieren el consentimiento de las partes que están compartiendo el control. No obstante, el Grupo Indra Sistemas incluye controles orientados a velar por la homogeneidad, validez y fiabilidad de la información financiera facilitada por las sociedades de control conjunto para su incorporación a los estados financieros consolidados. En consecuencia nuestro trabajo no incluyó el examen de la efectividad del sistema de control interno sobre la generación de la información financiera de dichas sociedades incluida en los estados financieros consolidados del Grupo Indra Sistemas.

DELOITTE, S.L.

Javier Peris

F. Javier Peris Álvarez

20 de marzo de 2018