4

Assets
Equity and Liabilities
Revenues
Backlog
Operating profit
Cash flow

Indra

Consolidated Annual Accounts and Director´s Report 2006

Indra

Consolidated Annual Accounts
and Director's Report

key figures

1,406,780 **Revenue** Pages 8, 20, 51, 52, 82

1,550,500 **Order intake** Pages 82, 83, 84, 85, 86

1,885,000 **Order book** Pages 82, 83, 84, 85, 86

163,615 **Operating profit** Pages 8, 9, 61, 64, 75

114,115 **Attributable profit** Pages 82, 83, 84, 91

+12.5% **Basic earnings per share** Pages 8, 22, 46

345,759 **Equity** Pages 7, 8, 10, 16, 17

Key figures in thousands of euros.

External Audit Report

KPMG Auditores S.L.
Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Auditors' Report on the Consolidated Annual Accounts

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

To the shareholders of
Indra Sistemas, S.A.

We have audited the consolidated annual accounts of Indra Sistemas, S.A. (hereinafter the Parent Company) and subsidiaries (hereinafter the Group), which comprise the consolidated balance sheet at 31 December 2006, the consolidated statements of income, cash flows and changes in equity for the year then ended and the notes thereto, the preparation of which is the responsibility of the directors of Indra Sistemas, S.A. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on our audit which was conducted in accordance with generally accepted auditing standards in Spain, which require examining, on a test basis, evidence supporting the amounts in the consolidated annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed.

In accordance with prevailing Spanish legislation, the consolidated balance sheet at 31 December 2006, the consolidated statements of income, cash flow and changes in equity for the year then ended and the notes thereto include comparative figures for 2005. We express our opinion solely on the consolidated annual accounts for 2006. On 24 March 2006 we issued our unqualified audit report on the consolidated annual accounts for 2005.

In our opinion, these consolidated annual accounts for 2006 present fairly, in all material respects, the consolidated equity and consolidated financial position of Indra Sistemas, S.A. and subsidiaries at 31 December 2006 and the consolidated results of its operations and the changes in consolidated equity and consolidated cash flows for the year then ended, and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with EU-IFRS which have been applied on a basis consistent with that of the preceding year.

The accompanying consolidated directors' report for 2006 contains such explanations as the directors of the Parent Company consider relevant to the situation of the Group, the evolution of its business and other matters, but is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2006. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Indra Sistemas, S.A. and subsidiaries.

KPMG AUDITORES, S.L.

Signed:

Antonio Fornieles Melero

23 March 2007

Total assets (thousands of euros)

1,571,404

2006 **+21.2%**
2005 +4.8%

Consolidated Balance Sheets at 31 December 2006 and 2005

Assets	Note	2006	2005
Goodwill on consolidation	5	184,572	108,705
Intangible assets	6	29,313	13,620
Property, plant and equipment	7	93,960	68,389
Investments in associates	8	2,126	3,555
Other investments	9	27,813	30,278
Long-term deposits	10	2,409	-
Fixed assets		**340,193**	**224,547**
Deferred tax assets	11	33,972	24,974
Total non-current assets		**374,165**	**249,521**
Income tax receivable	12	1,128	713
Inventories	13	85,294	64,713
Trade and other receivables	14	1,043,654	820,429
Other assets	15	24,863	22,249
Cash and cash equivalents	16	42,300	138,955
Total current assets		1,197,239	1,047,059
Total assets		**1,571,404**	**1,296,580**

Thousands of Euros

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Profit for the year

+9.7%

2006 **114,115 thousands of Euros**
2005 104,064 thousands of Euros

Consolidated Balance Sheets at 31 December 2006 and 2005

Assets	Note	2006	2005
Subscribed capital	17	29,238	29,238
First-time adoption reserve	17	2,406	4,032
Other reserves	17	63,903	58,117
Treasury shares	17	(39,800)	(38,941)
Conversion differences	17	(1,065)	(573)
Retained earnings	17	176,962	127,066
Profit for the year attributable to the parent	17	114,115	104,064
Total equity attrib. to equity holders of the parent		**345,759**	**283,003**
Minority interest	17	26,322	19,691
Total equity		**372,081**	**302,694**
Capital grants	19	11,788	11,167
Provisions for liabilities and charges	20	4,672	3,208
Long-term borrowings	21	53,689	52,321
Other long-term payables	22	43,144	39,731
Deferred tax liabilities	23	15,504	14,199
Total non-current liabilities		**128,797**	**120,626**
Income tax payable	24	18,617	12,397
Trade and other payables	25	866,257	754,736
Other current liabilities	26	138,178	73,624
Current borrowings	27	47,474	32,503
Total current liabilities		**1,070,526**	**873,260**
Total equity and liabilities		**1,571,404**	**1,296,580**

Thousands of Euros

The accompanying notes form an integral part of the consolidated annual accounts.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Basic earning per share

+12.5%

2006	**0.7948**
2005	0.7068

Consolidated Income Statements for the years ended 31 December 2006 and 2005

	Note	2006	2005
Revenue	28	**1,406,780**	**1,202,234**
Capital grants		4,677	1,976
Other income		1,874	2,858
Changes in inventories of finished goods and work in progress		18,781	6,417
Materials consumed	29	(602,021)	(566,536)
Personnel expenses	30	(458,746)	(351,965)
Other operating expenses		(186,898)	(135,094)
Gross operating profit		**184,447**	**159,890**
Amortisation and depreciation	6 and 7	(20,832)	(17,543)
Net operating profit		**163,615**	**142,347**
Financial income		4,903	7,595
Financial expenses		(7,108)	(4,233)
Exchange differences		764	1,116
Net financial income/(expense)		**(1,441)**	**4,478**
Share of profits/(losses) of associates	8	446	(322)
Share of profit/(losses) of other investees	31	60	(476)
Other losses on non-current assets	32	(506)	(716)
Profit before tax		**162,174**	**145,311**
Income tax expense	35	(44,238)	(37,883)
Profit for the year		**117,936**	**107,428**
Attributable to equity holders of the parent		**114,115**	**104,064**
Attributable to minority interest	17	3,821	3,364
Basic earnings per share (Euros)	18	0.7948	0.7068
Diluted earnings per share (Euros)	18	0.7948	0.7068

Thousands of Euros

The accompanying notes form an integral part of the consolidated annual account.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Operating profit (thousands of euros)

193,800

2006	**+17%**
2005	+24%

Consolidated cash flow statements for the years ended 31 December 2006 and 2005

	2006	2005
Profit before tax	162,174	145,311
Adjusted for:		
- Amortisation, depreciation, provisions and capital grants	30,109	23,668
- Other profit on assets	446	716
- Share of profit/(losses) of associates	(446)	322
- Finance income/(expense)	1,441	(4,478)
+ Dividends received	76	77
Operating profit prior to changes in working capital	**193,800**	**165,616**
Changes in trade and other receivables	(69,888)	(157,251)
Changes in inventories	(19,259)	(6,396)
Changes in trade and other payables	77,747	93,546
Cash generated from operations	**(11,400)**	**(70,101)**
Income taxes paid	(43,723)	(28,886)
Net cash from operating activities	**138,677**	**66,629**
Acquisition of non-current assets:		
Property, plant and equipment	(20,417)	(12,612)
Intangible assets	(17,577)	(5,261)
Investments	(129,249)	(72,035)
Proceeds from sale of non-current assets:		
Property, plant and equipment	202	568
Intangible assets	305	-
Investments	1,177	47,286
Deposits	7,274	-
Interest received	4,747	7,014
Cash used in investing activities	**(153,538)**	**(35,040)**
Purchase of shares for share capital decrease	-	(102,947)
Changes in own shares	(2,304)	(1,041)
Dividends of subsidiaries paid to minority interests	(775)	(59)
Dividends of the parent company	(55,439)	(28,484)
Extraordinary dividend of the parent company	-	(49,344)
Increase in capital grants	5,730	1,673
Increase in borrowings	-	12,252
Decrease in borrowings	(23,789)	-
Interest paid	(5,107)	(1,749)
Net cash used in financing activities	**(81,684)**	**(169,699)**
Net decrease in cash and cash equivalents	**(96,545)**	**(138,110)**
Cash and cash equivalents at 1 January	**138,955**	**275,799**
Effect of exchange rate fluctuations in cash and cash equivalents	(110)	1,266
Net decrease in cash and cash equivalents	(96,545)	(138,110)
Cash and cash equivalents at 31 December	**42,300**	**138,955**

Thousands of Euros

The accompanying notes form an integral part of the consolidated annual account.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Statements of changes in consolidated equity for the years ended 31 December 2006 and 2005

	Suscribed capital	1st application reserve	Other reserves	Treasury shares
Balance at 31.12.05	**29,238**	**4,032**	**58,117**	**(38,941)**
Distribution of 2005 profit:				
- Dividends	-	-	-	-
- Reserves	-	(1,626)	-	-
Changes in consolidated group	-	-	-	-
Other increases and decreases in 2006	-	-	3,858	(859)
Income and expense recognised directly in equity				
- Profit on treasury shares	-	-	1,300	-
- Exchange differences	-	-	-	-
- Held-for-sale investments	-	-	48	-
- Cash flow hedges	-	-	580	-
- Equity swap dividends	-	-	-	-
Total income and expense recognised directly in equity	-	-	1,928	-
Profit at 2006	-	-	-	-
Balance at 31.12.06	**29,238**	**2,406**	**63,903**	**(39,800)**

	Suscribed capital	1st application reserve	Other reserves	Treasury shares
Balance at 31.12.04	**30,879**	**10,596**	**62,532**	**(1,302)**
Distribution of 2004 profit:				
- Dividends	-	-	-	-
- Reserves	-	(6,564)	-	-
Amortisation of callable shares	(103)	-	(5,802)	-
Share capital decrease	(1,538)	-	-	-
Share equity swap (note 16)	-	-	-	(38,389)
Other increases and decreases in 2005	-	-	1,294	750
Income and expense recognised directly in equity				
- Profit on treasury shares	-	-	141	-
- Exchange differences	-	-	-	-
- Held-for-sale investments	-	-	(48)	-
Total income and expense recognised directly in equity	-	-	93	-
Profit for 2005	-	-	-	-
Balance at 31.12.05	**29,238**	**4,032**	**58,117**	**(38,941)**

Thousands of Euros

The accompanying notes form an integral part of the consolidated annual account.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Conversion differences	Retained earnings	Total	Minority interest	Total
(573)	**231,130**	**283,003**	**19,691**	**302,694**
-	(56,328)	**(56,328)**	-	**(56,328)**
-	1,626	**-**	(25)	**(25)**
-	-	**-**	2,845	**2,845**
-	(45)	2,954	-	2,954
-	-	**1,300**	-	**1,300**
(492)	-	**(492)**	25	**(467)**
-	-	**48**	(35)	**13**
-		**580**	-	**580**
-	579	**579**	-	**579**
(492)	579	**2,015**	(10)	**2,005**
-	114,115	**114,115**	3,821	**117,936**
(1,065)	**291,077**	**345,759**	**26,322**	**372,081**

Conversion differences	Retained earnings	Total	Minority interest	Total
(155)	**298,988**	**401,538**	**35,823**	**437,361**
-	(77,828)	**(77,828)**	-	**(77,828)**
-	6,564	**-**	-	**-**
-	-	**(5,905)**	-	**(5,905)**
-	(101,409)	**(102,947)**	-	**(102,947)**
-	-	**(38,389)**	-	**(38,389)**
-	751	**2,795**	(19,531)	**(16,736)**
-	-	**141**	-	**141**
(418)	-	**(418)**	-	**(418)**
-	-	**(48)**	35	**(13)**
(418)	-	**(325)**	35	**(290)**
-	104,064	**104,064**	3,364	**107,428**
(573)	**231,130**	**283,003**	**19,691**	**302,694**

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1. Nature, Structure and Principal Activities of the Group

The Parent Company of the Group, Indra Sistemas, S.A. (the Parent Company), adopted its present name at an extraordinary shareholders' meeting held on 9 June 1993. The registered offices of the Parent Company are at Avenida de Bruselas, 35, Arroyo de la Vega, Alcobendas (Madrid).

The statutory and principal activity of the Parent Company mainly consists of the design, development, integration and maintenance of systems, solutions and services based on intensive use of information technology.

Consolidated subsidiary companies, their registered offices, activities and the percentage holdings owned by the Parent Company are shown in Appendix I, which forms an integral part of the notes to the consolidated annual accounts for the year ended 31 December 2006.

The Group comprises the following subsidiaries, joint ventures and associates:

a. Subsidiaries

Entities that the Parent Company controls, directly or indirectly through other investees are considered to be subsidiaries. Control is understood to be the legal power to govern the financial and operating policies of an entity so as to obtain profits from its activities.

During the year ended 31 December 2006 movement in the consolidated group relating to interests in subsidiaries was as follows:

- On 11 January 2006 the Parent Company incorporated the Polish company Polska Sp.Zo.o, for which it subscribed and paid 100% of the share capital. This company has been fully consolidated since its incorporation.
- On 24 April 2006 a share capital increase was approved in Indra Sistemas Chile, S.A. by issuing 1,000 new shares. The Parent Company subscribed 999 of the aforementioned shares which were paid up through capitalisation of balances payable by Indra Chile, S.A. to the Parent Company.
- On 5 June 2006 the Parent Company incorporated the Moroccan company Indra Sistemas Magreb SARL, for which it subscribed and paid 100% of the share capital. This company has been fully consolidated since its incorporation.
- On 17 July 2006 the Parent Company incorporated the French company Indra France SAS, for which it subscribed and paid 100% of the share capital. This company has been fully consolidated since its incorporation.
- On 20 June 2006 Europraxis Atlante, S.L. acquired 51% of Advanced Logistic Group, S.L. This company has been fully consolidated its acquisition.
- On 28 July 2006 the Parent Company acquired a further 70% of Internet Protocol Sistemas Net, S.A. and an additional 2.87% on 12 December, thereby increasing its interest in this company to 92.87%. This investment is fully consolidated.
- On 15 September 2006 the Parent Company acquired 100% of Azertia Tecnologías de la Información, S.A. for Euros 116,391 thousand, including the total income and expenses inherent to the operation.

Azertia Tecnologías de la Información, S.A. is the parent company of the Azertia Group, which is engaged in the design, development and maintenance of information technologies, mainly for the financial, energy, utilities, healthcare and legal sectors.

The business acquired has generated consolidated profit for the Group of Euros 2,714 thousand between the date of acquisition and year end.

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Had the acquisition been made on 1 January 2006, the Indra Group's ordinary income and consolidated profit for the year ended 31 December 2006 would have amounted to Euros 1,539,177 thousand and Euros 128,223 thousand, respectively.

Aggregate details of the cost of business combinations, the fair value of the net assets acquired and goodwill are as follows:

Cost of the business combination:	
– Expenses inherent to the acquisition	118,800
– Dividends collected	(4,000)
– Cash paid	1,591
	116,391
Fair value of net assets acquired	56,919
Goodwill (note 5)	59,472

Thousands of Euros

The amounts recognised at the date of acquisition of the assets, liabilities and contingent liabilities are as follows:

Assets	
Goodwill on consolidation	9,062
Intangible assets	4,501
Property, plant and equipment	18,111
Other financial assets	1,111
Deferred tax assets	3,986
Inventories	1,136
Trade and other receivables	89,164
Other assets	6,558
	133,629
Liabilities	
Capital grants	(527)
Provisions for liabilities and charges	(16)
Other long-term payables	(1,899)
Deferred tax liabilities	(45)
Income tax liabilities	(896)
Trade and other payables	(26,207)
Other liabilities	(25,052)
	(54,642)
Total net assets	78,987
Minority interests	(804)
Cost of the business combination	(116,391)
Cash and cash equivalents	(21,264)
Cash paid for the acquisition	**(59,472)**

Thousands of Euros

The fair value of all the assets and liabilities related to this business combination is substantially equal to the carrying amount in the Azertia Group books at the date of the acquisition. These amounts have therefore been maintained.

- The downstream merger whereby the Parent Company absorbed its solely-owned subsidiary, Indra ATM, S.L., Sociedad Unipersonal, was entered into the Mercantile Registry on 25 September 2006, with accounting effect as of 1 January 2006.
- On 26 September a share capital increase was carried out in Indra Sistemas Portugal, S.A. by issuing 250,640 shares of Euros 5.00 par value each. The Parent Company subscribed this entire share capital increase which was paid up by capitalising the balance payable by Indra Sistemas Portugal, S.A. to the Parent Company.
- On 28 September a share capital increase was carried out in Indra Brasil, Ltda. by issuing 25,000,000 shares of Brazilian Real 1 par value each. The Parent Company subscribed the entire share capital increase by capitalising the balance payable by Indra Brasil Ltda. to the Parent Company.
- The downstream merger whereby the Parent Company absorbed its solely-owned subsidiary, Algoritmos y Sistemas, S.L., Sociedad Unipersonal, was entered into the Mercantile Registry on 26 October 2006, with accounting effect as of 1 January 2006.
- On 2 November 2006 Indra Sistemas de Seguridad, S.A. incorporated Indra Sistemas de Comunicaciones Seguras, S.L., Sociedad Unipersonal, for which it subscribed and paid 100% of the share capital. It subsequently sold 10% of the share capital on 13 November 2006. This company has been fully consolidated since its incorporation.

During the year ended 31 December 2005 movement in the consolidated Group was as follows:

- On 7 March 2005 the Parent Company exercised the option to purchase 23,620 shares representing a 17.5% interest in its subsidiary Indra Emac, S.A. from Matrust S.L., thereby becoming the sole shareholder of Indra Emac, S.A.
- On 5 April 2005 the Parent Company acquired the remaining 50% interest in its subsidiary Algoritmos y Sistemas, S.L., thereby becoming the sole shareholder of that company.
- On 11 April 2005 the Parent Company incorporated Indra Sistemas México S.A. de C.V. in Mexico and subscribed 100% of its share capital.
- On 28 December 2005 the Parent Company acquired the remaining 49% interest in its subsidiary Indra ATM, S.L., thereby becoming the sole shareholder of that company.

b. Joint ventures

Joint ventures are those entities over whose economic activity the Company has joint control through a contractual agreement whereby the strategic financial and operating decisions relating to the activity require the unanimous consent of the Group and the other venturers.

Joint ventures are jointly-controlled entities that entail the creation of a corporation, partnership or similar entity, in which each venturer holds an interest.

Movement relating to interests in joint ventures during the year ended 31 December 2006 is as follows:

- On 11 May 2006 the Parent Company acquired 150 shares representing a 50% interest in I3 Televisión, S.L. This company is consolidated proportionately.

- On 12 May 2006, the Parent Company acquired a 16.66% interest in the Alliance Ground Surveillance Industries GmbH joint venture. This company is consolidated proportionately.
- On 31 August 2006 the Parent Company acquired a 16% interest in TCAR Industries GmbH. This company is consolidated proportionately.
- On 12 December 2006 the Parent Company acquired 751 shares representing a 24.983% interest in Ceicom Europe, S.L., thereby increasing its interest to 50%. This company is consolidated proportionately.
- On 12 December 2006 the Parent Company acquired 62,500 shares representing a 25% interest in Computación Ceicom, S.A., thereby increasing its interest to 50%. This company is consolidated proportionately.

During the year ended 31 December 2005, the following changes took place:

- On 28 April 2005 the Parent Company acquired an additional 37% interest in BMB Gestión Documental, S.L., thereby raising the total interest held in this company from 13% at 31 December 2004 to 50% at 31 December 2005. Since April 2005 this company has been consolidated proportionately.
- On 14 April 2005 the Jocs del Mediterrani joint venture was incorporated. This company, in which the Parent Company holds a 25% interest, is consolidated proportionately.

c. Associates

Entities over which the Parent Company has significant influence, either directly or indirectly though other investees, are considered to be associates. Significant influence is the power to intervene in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Movement relating to interests in associates during the year ended 31 December 2006 is as follows:

- As mentioned above, on 28 April 2006 the Parent Company acquired a further 70% interest in its investee Internet Protocol Sistemas Net, S.A. This company thereby became a subsidiary and has been fully consolidated (see section a).
- As mentioned above, on 12 December 2006 the Parent Company acquired a further 24.983% interest in its investee Ceicom Europe, S.L. This company thereby became a joint venture and is consolidated proportionately (see section b).
- As mentioned above, on 12 December 2006 the Parent Company acquired a further 25% interest in its investee Computación Ceicom, S.A. This company thereby became a joint venture and is consolidated proportionately (see section b).

During the year ended 31 December 2005, the following changes took place:

- On 11 March 2005 the Parent Company subscribed a 50% interest in the incorporation capital of Indra Sistemas Tecnocom, S.A. de C.V. in Mexico.
- As mentioned above, on 5 April 2005 the Parent Company acquired the remaining 50% interest in its investee Algoritmos y Sistemas, S.L. This company thereby became a subsidiary and has been fully consolidated (see section a).
- On 23 November 2005 the Parent Company acquired 752 shares representing a 25.017% interest in Ceicom Europe, S.L.
- On 23 November 2005 the Parent Company acquired 62,500 shares representing a 25% interest in Argentina Computación Ceicom, S.A.

- On 29 November 2005 the Parent Company acquired 2,088 shares in Internet Protocol Sistemas Net, S.A. and on 1 December 2005 acquired a further 412 shares, bringing its total interest in that company to 20%.

The annual accounts of the companies that comprise the consolidated Group have the same closing date as these consolidated annual accounts.

2. Basis of Presentation

The accompanying consolidated annual accounts have been prepared by the directors of the Parent Company on the basis of the individual accounts of Indra Sistemas, S.A. and its subsidiaries, joint ventures and associates, to present fairly the shareholders' equity and the financial position, results of operations, cash flows and changes in equity of the Group for the years ended 31 December 2006 and 2005.

The directors of the Parent Company expect these consolidated annual accounts for the year 2006 to be approved by the shareholders at their annual general meeting without significant changes.

The consolidated annual accounts for 2005 were approved by the shareholders at their annual general meeting held on 22 June 2006.

Presentation and format

The Group's consolidated annual accounts have been prepared in accordance with European Union-endorsed International Financial Reporting Standards (IFRS). Accordingly, the consolidated balance sheet, income statement, cash flow statement and statement of changes in equity for the year ended 31 December 2006 include comparative figures for the previous year.

The Indra Group has chosen not to apply in advance IFRS 7 - Financial Instruments: Disclosures, or modified IAS 1 - Presentation of Financial Statements - Capital Disclosures, application of which will be obligatory as of 1 January 2007 and subsequent years.

These consolidated annual accounts are presented in thousands of Euros, as this is being the functional currency in the main economic environment in which the Indra Group operates. Foreign currency transactions are recorded following the principles described in note 4.t.

Estimates

The preparation of consolidated annual accounts under IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Nevertheless, the results could have been different had other estimates been used.

The accounting principles and areas requiring the greatest number of judgements and estimates in the preparation of the consolidated annual accounts are as follows:

- Percentage of completion of projects (note 4.s).
- Test of recovery of goodwill on consolidation (note 4.d).
- Provisions for liabilities and charges. The final cost of litigation and contingencies may vary depending on the interpretation of the rules, opinions and ultimate evaluations. Any variations in these circumstances could have a significant effect on the amounts recorded under provisions for liabilities and charges.
- Estimate of the useful life of property, plant and equipment and intangible assets.

Consolidation criteria

Subsidiaries

The annual accounts of subsidiaries are included in the consolidated annual accounts from the acquisition date, which is the date that control effectively commences, until the date that control ceases.

Subsidiaries are fully consolidated, and therefore the assets, liabilities, income, expenses and cash flows of subsidiaries are incorporated in the annual accounts after adjusting and eliminating intergroup operations.

On the date of acquisition, the subsidiary's assets, liabilities and contingent liabilities are recognised at fair value. Positive differences between the cost of acquisition of the subsidiary and the market value of its assets and liabilities relating to the Parent Company's interest therein is recorded as goodwill (see note 4.a). Negative differences are recognised in the consolidated income statement.

If the business combination can only be determined provisionally, the identifiable net assets are initially recorded at their provisional value. Adjustments applied during the twelve-month period subsequent to the date of acquisition are recorded as if they had been known at that date.

Once this period has concluded, any adjustments other than those related to the existence of contingent payments or deferred tax assets of the acquired company, not initially recognised, are considered as corrections of errors and are recorded in accordance with the criteria established in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

For business combinations carried out in phases, each exchange transaction is treated separately using information relating to the cost of the transaction and the fair value of the net assets identifiable at the date of each exchange, in order to quantify the goodwill associated with the transaction.

Joint ventures

Significant investments in joint ventures are consolidated proportionately from the date joint control commences until the date that joint control ceases.

The Group includes the proportionate share of the assets, liabilities, income and expenses recognised in the consolidated annual accounts of the jointly-controlled entity with items of a similar nature on a line by line basis.

Associates

Investments in associates are accounted for using the equity method from the date significant influence by the Parent Company commences until the date it ceases.

The Group's share of an associate's post-acquisition profits or losses is recognised as an increase or decrease in the value of the investment, with a charge to "share of profit/(losses) of associates" in the consolidated income statement. Dividends from the associate are recognised as a decrease in the value of the investment.

The Group has considered the date of acquisition of holdings in subsidiaries, joint ventures and associates as the date of first consolidation for the purposes of calculating goodwill or negative consolidation differences.

All balances, transactions and unrealised profit or loss on operations between consolidated companies at 31 December 2006 and 2005 have been eliminated on consolidation.

Third-party interests in the equity of fully-consolidated companies are reflected under minority interests in the consolidated balance sheets. Third-party shares in consolidated profit or loss for the years ended 31 December 2006 and 2005 are recognised under "profit/loss attributable to minority interests" in the consolidated income statements.

3. Distribution of Profit

The board of directors will propose to the shareholders at their annual general meeting that a dividend of Euros 0.78 per share be distributed for 2006 (Euros 0.39 per share in 2005), marking a 100% increase in shareholder remuneration.

This dividend, effective for all shares held, totals Euros 128,119 thousand and will be distributed with a charge to the following items:

Profit for 2006	112,346
Freely-distributable reserves	15,773
	128,119

The distribution of profits for 2006 proposed by the directors of the Group companies is pending approval by the shareholders at their respective annual general meetings.

4. Significant Accounting Principles

The consolidated annual accounts have been prepared in accordance with European Union-endorsed International Financial Reporting Standards (IFRS).

The accounting policies set out below have been applied consistently in the periods presented in these consolidated annual accounts.

The most significant accounting principles applied are as follows:

a. Goodwill on consolidation

Goodwill on consolidation deriving from business combinations is recorded under assets on the consolidated balance sheet when the cost of acquisition exceeds the Company's interest in the fair value of the identifiable assets and liabilities in the acquired companies at the date of exchange.

Goodwill on consolidation is recorded using the consolidation criteria described in note 2.

Goodwill acquired after 1 January 2004 is measured at cost while goodwill acquired previously is measured at the carrying amount at 31 December 2003 in accordance with Spanish accounting principles.

Goodwill is not amortised. The Parent Company tests goodwill for possible impairment each year as described in section d).

Impairment losses on goodwill are not reversed in subsequent years.

b. Intangible assets

Intangible assets are stated at cost of acquisition or production, less any impairment losses resulting from annual testing, as described in section d) of this note. Intangible assets include the following:

- **Development costs,** which represent direct costs incurred in developments specifically attributable to individual projects.

  Expenses related to research, development and innovation projects (R&D&innovation) are recognised directly in the consolidated income statement for the corresponding period, except for costs incurred on development projects, which are capitalised under development expenses when the following conditions exist:

- It is technically possible to complete production of the intangible asset so that it is available for use or sale
- There is a clear intention to complete production of the intangible asset, for use or sale
- It is possible to use or sell the intangible asset
- The intangible asset is likely to generate economic profit in the future
- The appropriate technical and financial resources are available to enable completion of the intangible asset for use or sale
- It is possible to reliably evaluate the disbursement attributable to the intangible asset during its production
- Grants have been received for the development project.
- The repayment of loans obtained to finance the development project is conditional upon commercial viability and estimated sales would permit amortisation of the amount capitalised over a maximum period of five years.

In no case may the total costs capitalised exceed the final amount of grants or financing received to fund the development project. On conclusion of the development project, the total cost capitalised is recorded under development costs.

The cost of completed development projects is amortised on the basis of the estimated income from grants or planned sales of the related commercial project.

- **Software:** Expenses incurred on the acquisition of software or licences, as well as costs related to programmes developed by the Group, are capitalised when these assets contribute to the generation of income.

  Amounts capitalised do not include costs incurred to modify or upgrade programmes utilised by the Group or expenses arising from review, consultancy and training services rendered by third parties in relation to the implementation of software.

  Software is amortised in line with the Group’s use thereof.

- **Patents:** Are stated at cost and amortised over the period of use stipulated therein.

c. Property, plant and equipment

Property, plant and equipment acquired prior to 31 December 1983 are stated at cost or at the value contributed by shareholders, revalued as permitted by Law 9 of 13 July 1983. Property, plant and equipment acquired subsequent to 1983 are stated at the lower of cost and recoverable amount.

Costs of extending, modernising or improving assets to increase productivity, capacity or efficiency, or extend their useful lives, are capitalised as an increase in the cost of the asset. Repairs and maintenance costs are expensed when incurred.

As a consequence of the inclusion of the Inisel sub-group within the consolidated Group and the subsequent merger of Inisel with Indra Sistemas with effect from 1 January 1993, certain property, plant and equipment items were revalued in accordance with appraisals made by independent experts.

Depreciation is provided on a straight-line basis on the cost or value assigned by independent experts over the following average estimated useful lives:

	Years
Buildings	50
Plant, machinery and other installations	10
Furniture	10
Information technology equipment	4
Motor vehicles	7
Other tangible assets	10

The rights to use and the option to purchase property, plant and equipment contracted through finance leases are recorded at the cash value of the asset at the time of acquisition, in accordance with the nature of the asset. The cash value of the debt is recorded as a liability. The finance cost of the operation is taken to expense in line with payment of the corresponding lease instalments. These rights are amortised on a straight-line basis over the useful lives of the relevant leased assets.

d. Impairment

Goodwill is tested annually for impairment and the fair value of the Group's assets with finite useful lives is tested when there is any indication of impairment. When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the consolidated income statement under impairment losses to reduce the carrying amount of the asset to the recoverable value. The recoverable value of an asset is the higher of the net selling price and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a reasonable interest rate.

To estimate the value in use the Group prepares cash flow forecasts based on the best available estimates of income and expenses of the cash generating units, sector forecasts, historical experience and future expectations.

To calculate the present value of cash flows, these are discounted at a rate that considers the cost of capital of the business and of the geographical area in which the business is carried out. For calculation purposes, the present cost of the money and the risk premiums generally used for each business and geographical area are taken into consideration.

In the case of identifiable assets that do not generate cash independently, the recoverability of the cash generating unit to which the assets belong is estimated.

Reversal of impairment losses incurred on assets, except in the case of goodwill, is recognised as revenue in the consolidated income statement, with an adjustment to the amortisation or depreciation associated with the assets. If the asset has previously been revalued, the reversal is recognised under reserves.

e. Financial assets

Financial assets, except investments accounted for using the equity method (see note 2), are stated as follows:

- Loans and receivables are recognised at amortised cost, which basically reflects the amount disbursed less repayments of the principal plus accrued interest in the case of loans, and at the present value of the consideration in the case of receivables.
- Financial assets at fair value through profit and loss include financial assets held for trading and other financial assets managed and measured at fair value.

These assets are carried at fair value and any fluctuations are recorded in the consolidated income statement.

- Held-to-maturity investments are financial assets other than loans and receivables, which have a fixed maturity and fixed or determinable payments and that the entity has the positive intent and ability to hold until maturity.
- Available-for-sale investments comprise the remaining investments not included in the abovementioned categories. These investments are carried at fair value, recording net differences in relation to the acquisition cost under equity until the assets are written off the consolidated balance sheet, at which point they are taken to the consolidated income statement.

  These investments include investments in companies not forming part of the Indra Group, which are stated at fair value when this can be reliably measured. Given that the market value of shares in unquoted companies cannot usually be reliably measured, these investments are stated at cost of acquisition less any impairment losses.

f. Inventories

Inventories are stated at the lower of cost or net realisable value. Work in progress represents the direct cost of labour, materials or services acquired for projects. Materials and services directly attributable to projects are valued at cost, while labour is stated at standard rates, which does not differ significantly from the actual costs incurred in this respect.

g. Trade and other receivables

Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest method, provided they have a fixed maturity date of more than one year.

The group makes provision for bad debts when there is objective evidence of impairment losses.

h. Capital grants

Outright capital grants received by the Group to finance research and development costs are recognised as a liability for the amount received and are taken to income in line with the amortisation of projects capitalised under intangible assets.

i. Share options programme

The share option programmes allow Group employees and directors to acquire shares of the parent company at a specified price. The options granted by the Group are recognised at their fair value as a personnel expense with a corresponding increase in equity or debt, depending on the exercise method of each programme.

The fair value of options granted is measured at the grant date using the Black-Scholes model, taking into account the exercise price, the exercise term, historical volatility, estimated dividend payments and the terms and conditions upon which the options were granted. The fair value of the option multiplied by the number of options granted which are expected to vest is recognised as a personnel expense, over the period during which the employees become unconditionally entitled to the options, that is, from the grant date to the exercise date. The amount recognised as an expense is adjusted periodically to reflect the estimated number of share options that vest.

j. Provisions for liabilities and charges

Obligations existing at year end arising as a result of past events, the amount and settlement date of which are not determined and which could negatively affect the equity of Indra Group, are recognised as provisions for liabilities and charges under liabilities in the consolidated balance sheet at the present value of the most probable estimated amount that the Group would be obliged to disburse to settle the obligation.

The amount of these provisions is calculated at each accounting close on the basis of the most reliable information available in relation to the consequences of the event from which they arise.

k. Trade provisions

Trade provisions are made to cover the estimated expenses of repairs or reviews of projects during the guarantee period.

l. Current/long-term

Assets and liabilities are classified in the consolidated balance sheet as follows:

- Long-term: debts maturing more than twelve months from the balance sheet date, which is the Group's normal operating cycle, and assets which are not expected to be realised, sold or consumed within this time.
- Current: assets expected to be realised, sold or consumed within the normal operating cycle of the Group and debts maturing within twelve months of the balance sheet date.

m. Income taxes

The income tax expense for the year is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax assets and liabilities are provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected tax rate on realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date. Deferred tax assets and liabilities relating to movements in equity are recognised in equity. Deferred tax assets and tax credits are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

n. Earnings per share

The Group calculates basic earnings per share by dividing profit or loss by the weighted average number of shares available during the period. Available shares are issued shares not held by the Company. Diluted earnings per share are calculated taking into account the diluted effect of convertible bonds or hybrid instruments with an equity component.

o. Foreign currency transactions

- Uninsured operations:

Foreign currency transactions are accounted for in Euros at the rates of exchange prevailing at the transaction date. Exchange gains or losses arising on settlement of balances are taken to the consolidated income statement when they arise.

Uninsured balances receivable and payable in foreign currencies are expressed in Euros at the rates of exchange prevailing at year end. Exchange gains or losses arising on settlement of balances are taken to the consolidated income statement when they arise.

- Insured operations:

In order to eliminate the impact of exchange rate differences on the projects carried out by the Parent Company and its subsidiaries, forward purchases and sales of foreign currency are arranged with banks (see note 4.p).

The exchange rate to be applied to foreign currency cash flows generated over the term of projects is established when the related contracts are drawn up. This exchange rate is also taken into consideration for the purposes of recognising income on the projects.

The fixed exchange rate corresponds to the weighted average exchange rate obtained by applying the average market rates assigned on each maturity to forecast cash flows.

For forward purchase and sale operations, at year-end the Company verifies that the value of the cash flows pending realisation on projects coincides with the forward conversion value. Possible negative differences arising when an expected flow from the product does not occur within the initially estimated time frame are expensed.

p. Financial derivatives and hedging operations

The Group has arranged forward purchases and sales of foreign currency. These exchange rate insurance contracts are considered financial derivatives and comply with conditions for hedge accounting, as follows:

- In the case of fair value hedges, changes in the both market value of derivative instruments designated as hedging instruments and the market value of the hedged item, as a result of the hedged risk, are taken to the consolidated income statement.
- In the case of cash flow hedges, changes in the market value of effective hedging derivatives are recognised in equity in the consolidated balance sheet.

The fair value of exchange rate insurance is calculated using the official exchange rate of each currency at closing date.

q. Compensation for termination of employment

Except in the case of justifiable cause, companies are liable to pay indemnities to employees whose services are discontinued. Indemnity payments, if they arise, are expensed when the decision to terminate employment is approved and announced to the affected parties.

r. Distribution of costs by segment

The Group's activities are performed in two main segments:

- Solutions, which includes a wide range of systems, applications and components for compiling data and information and for data and information processing, transmission and subsequent presentation, for the control and management of complex processes. The Company's solutions business is characterised by the customer-based approach and knowledge of the business, and incorporates a high degree of business and consulting technology
- Services, including management and operation of systems and solutions, as well as certain business processes where technology is a strategic element.

Inter-segment pricing is determined on an arm's length basis and profit or loss of each segment is measured using the contribution margin. This margin is the gross margin of projects less the cost of sales in the markets in which the Group offers its solutions and services, the costs of support of projects and the profit or loss of equity-accounted companies.

For consolidation purposes, corporate functions and other activities which cannot be allocated to a specific segment are shown under Corporate (unallocated).

Based on the different characteristics of the geographical areas in which the Group operates, the Group's activities in Spain, the European Union, the United States, and Canada, Latin America and other areas have been designated secondary segments.

s. Recognition of income and expenses

The Group recognises income and expenses on contracts using the percentage of completion method, which is based on the estimated portion of the total contract completed at the closing date. Accordingly, the total estimated profit is distributed over the period in which the contract is expected to be carried out, based on the percentage of completion at each year end.

Where certificates of work completed exceed income obtained by applying the percentage of completion method, the excess is recorded under advances from customers. Conversely, where certificates issued are lower than income resulting from the application of the percentage of completion method, uninvoiced income is recorded under trade and other receivables in the consolidated balance sheet.

Losses estimated to arise on projects are recorded as soon as the amount is known.

t. Conversion of annual accounts in foreign currencies

For the purposes of converting the balance sheets and income statements of the foreign companies incorporated into the consolidated annual accounts of the Indra Group, the Group has translated the related balances at the year-end exchange rates on the following basis:

- All assets and liabilities reflected in the balance sheets of the foreign companies incorporated in the consolidation process have been converted at the rates of exchange prevailing at the closing date.
- Amounts reflected in the income statements of the foreign companies incorporated in the consolidation process have been converted at weighted average exchange rates on the basis of the volume of transactions carried out by these companies during the year.
- Equity at year end, except for the profit or loss for the year, which is valued in accordance with the criteria explained in the preceding paragraph, has been stated at closing exchange rates.
- Any positive or negative differences between the equity determined as per the preceding paragraph and that resulting from the conversion of the assets and liabilities as described in the first paragraph of this note are recorded under conversion differences in the consolidated balance sheet of the Group, net of the portion of the difference attributable to minority interests, which is recorded under the caption "Minority interest".

5. Goodwill on Consolidation

Details and movement are as follows:

	01.01.05	Additions	Transfers	31.12.05	Additions	New companies	Transfers	31.12.06
Dir. BDE (*)	4,136	–	–	4,136	–	–	–	4,136
Indra Diagram (*)	2,443	–	–	2,443	–	–	–	2,443
Indra Emac	660	500	–	1,160	–	–	–	1,160
Asesoría de Empresas Tres Cantos (*)	1,742	–	–	1,742	–	–	–	1,742
Grupo Europraxis (**)	27,786	–	–	27,786	–	–	–	27,786
Indra EWS (*)	14,462	–	–	14,462	–	–	–	14,462
Indra Sistemas Portugal	11,631	–	–	11,631	–	–	–	11,631
Algoritmos y Sistemas (*)	–	1,132	473	1,605	–	–	–	1,605
BMB Gestión Documental	–	13,249	–	13,249	–	–	–	13,249
Indra ATM (*)	–	29,447	–	29,447	–	–	–	29,447
Assesors Registrals	–	1,044	–	1,044	–	–	–	1,044
Internet Protocol Sistemas Net	–	–	–	–	5,148	–	364	5,512
Advanced Logistics Group	–	–	–	–	1,003	–	–	1,003
Ceicom Europe	–	–	–	–	170	–	9	179
Computación Ceicom	–	–	–	–	250	–	389	639
Grupo Azertia	–	–	–	–	59,472	–	–	59,472
Euroquality	–	–	–	–	–	1,751	–	1,751
Dimensión Informática	–	–	–	–	–	4,429	–	4,429
Seintex	–	–	–	–	–	2,882	–	2,882
Total	**62,860**	**45,372**	**473**	**108,705**	**66,043**	**9,062**	**762**	**184,572**

Thousands of Euros

(*) Companies merged with the Parent Company.

(**) Companies merged with Europraxis Atlante, S.L.

The following operations generating goodwill were carried out during the year ended 31 December 2006:

- On 20 July 2006 Europraxis Atlante, S.L. acquired 51% of Advanced Logistic Group, S.L. for Euros 2,312 thousand, generating goodwill on consolidation of Euros 1,003 thousand.
- On 28 July the Parent Company acquired an additional 70% and on 12 December 2006 a further 2.87% of Internet Protocol Sistemas Net, S.A. The price of both acquisitions amounted to Euros 8,745 thousand, generating goodwill on consolidation of Euros 5,148 thousand. Goodwill deriving from this company, which had been recognised under investments in associates at 31 December 2005, when the company was classified as an associate, has been transferred to goodwill on consolidation (see note 8).
- On 15 September 2006 the Parent Company acquired 100% of shares in Azertia Tecnologías de la Información, S.A. for Euros 116,391 thousand, generating goodwill on consolidation of Euros 59,472 thousand (see note 1).
- On 12 December 2006 the Parent Company acquired an additional 24.983% of Ceicom Europe, S.L. for Euros 209 thousand, generating goodwill on consolidation of Euros 170 thousand. Goodwill deriving from this company, which had been recognised under investments in associates at 31 December 2005 when the company was classified as an associate, has been transferred to goodwill on consolidation (see note 8).

- On 12 December 2006 the Parent Company acquired an additional 25% of Computación Ceicom, S.A. for Euros 391 thousand, generating goodwill on consolidation of Euros 250 thousand. Goodwill on this company, which had been recognised under investments in associates at 31 December 2005 when the company was classified as an associate, has been transferred to goodwill on consolidation (see note 8).

  Additions due to changes in the consolidated group relate to goodwill deriving from companies in the Azertia subgroup.

  Operations generating goodwill on consolidation in 2005 were as follows:

- On 7 March 2005 the Parent Company acquired the remaining 17.5% interest in its subsidiary Indra Emac for Euros 1,166 thousand, generating goodwill on consolidation of Euros 500 thousand.
- On 5 April 2005 the Parent Company acquired the remaining 50% of Algoritmos y Sistemas, S.L. for Euros 1,238 thousand, generating goodwill on consolidation of Euros 1,132 thousand. Goodwill on this company, which had been recognised under investments in associates at 31 December 2004 when the company was classified as an associate, was transferred to goodwill on consolidation.
- On 28 April 2005 the Parent Company acquired an additional 37% interest in BMB Gestión Documental for Euros 16,650 thousand, generating goodwill on consolidation of Euros 13,249 thousand.
- The addition of goodwill on Assesors Registrals relates to the acquisition of BMB Gestión Documental for Euros 781 thousand. This goodwill was later increased by Euros 263 thousand to reflect the higher variable payment pending with BMB Gestión Documental.
- On 28 December 2005 the Parent Company acquired the remaining 49% interest in Indra ATM for Euros 48,688 thousand, generating goodwill on consolidation of Euros 29,447 thousand.

6. Intangible Assets

Details of intangible assets at 31 December 2006 and 2005 are as follows:

	Balance at 31.12.05	New companies	Conversion differences	Additions	Disposals	Transfers (note7)	Balance at 31.12.06
Investments:							
Patents	36,777	532	–	149	(637)	(94)	36,727
Software	13,220	21,542	(77)	6,534	(7,460)	847	34,606
Development expenses	23,937	2,762	(1)	5,981	(960)	(480)	31,239
Other intangible assets	2,086	–	(2)	4,915	–	(42)	6,957
	76,020	**24,836**	**(80)**	**17,579**	**(9,057)**	**231**	**109,529**
Amortisation:							
Patents	(32,657)	(529)	–	(1,833)	576	94	(34,349)
Software	(11,021)	(17,826)	40	(1,721)	6,650	(171)	(24,049)
Development expenses	(17,853)	(267)	–	(2,639)	–	–	(20,759)
Other intangible assets	(869)	(6)	1	(185)	–	–	(1,059)
	(62,400)	**(18,628)**	**41**	**(6,378)**	**7,226**	**(77)**	**(80,216)**
Carrying amount:							
Patents	4,120	3	–	(1,684)	(61)	–	2,378
Software	2,199	3,716	(37)	4,813	(810)	676	10,557
Development expenses	6,084	2,495	(1)	3,342	(960)	(480)	10,480
Other intangible assets	1,217	(6)	(1)	4,730	–	(42)	5,898
Total	**13,620**	**6,208**	**(39)**	**11,201**	**(1,831)**	**154**	**29,313**

Thousands of Euros

	Balance at 31.12.04	New companies	Conversion differences	Additions	Disposals	Transfers	Balance at 31.12.05
Investments:							
Patents	36,553	7	5	212	–	–	36,777
Software	7,161	3,865	70	2,124	–	–	13,220
Development expenses	21,868	–	–	2,071	(2)	–	23,937
Other intangible assets	1,060	75	41	854	(84)	140	2,086
	66,642	**3,947**	**116**	**5,261**	**(86)**	**140**	**76,020**
Amortisation:							
Patents	(30,615)	(2)	(5)	(2,035)	–	–	(32,657)
Software	(5,646)	(3,361)	(14)	(2,000)	–	–	(11,021)
Development expenses	(17,211)	–	–	(642)	–	–	(17,853)
Other intangible assets	(823)	(1)	(10)	(65)	78	(48)	(869)
	(54,295)	**(3,364)**	**(29)**	**(4,742)**	**78**	**(48)**	**(62,400)**
Carrying amount:							
Patents	5,938	5	–	(1,823)	–	–	4,120
Software	1,515	504	56	124	–	–	2,199
Development expenses	4,657	–	–	1,429	(2)	–	6,084
Other intangible assets	237	74	31	789	(6)	92	1,217
Total	**12,347**	**583**	**87**	**519**	**(8)**	**92**	**13,620**

Thousands of Euros

Additions to software reflect the capitalisation of costs incurred on internal development work performed to commercialise software.

Capitalised development expenses have been financed or subsidised by the Spanish State through relevant public entities (see notes 19 and 21).

At 31 December 2006 fully amortised intangible assets amount to Euros 60,236 thousand (Euros 40,478 thousand at 31 December 2005).

7. Property, Plant and Equipment

Details of property, plant and equipment at 31 December 2006 and 2005 are as follows:

	Balance at 31.12.05	New companies	Conversion differences	Additions	Disposals	Transfers (note 6)	Balance at 31.12.06
Investments:							
Land	8,698	1,033	–	–	–	–	9,731
Buildings	24,483	4,247	(31)	(19)	(479)	(22)	28,179
Plant, machinery and other installations	70,587	25,927	(307)	8,499	(1,960)	299	103,045
Furniture	14,664	3,797	(114)	2,626	(438)	63	20,598
Motor vehicles	322	1,507	(30)	446	(459)	–	1,786
Information technology equipment	42,806	8,905	(157)	6,383	(2,754)	(126)	55,057
Other property, plant and equipment	1,571	1,564	52	1,639	(47)	14	4,793
Inmovilizado en curso	1,576	161	(3)	1,813	–	(332)	3,215
	164,707	**47,141**	**(590)**	**21,387**	**(6,137)**	**(104)**	**226,404**
Depreciation:							
Buildings	(10,265)	(1,112)	59	(540)	473	–	(11,385)
Plant, machinery and other installations	(48,541)	(15,841)	11	(4,539)	1,688	–	(67,222)
Furniture	(8,329)	(2,215)	55	(1,391)	409	49	(11,422)
Motor vehicles	(163)	(1,053)	15	(88)	446	–	(843)
Information technology equipment	(27,609)	(6,978)	77	(7,598)	2,511	(59)	(39,656)
Other property, plant and equipment	(1,411)	(198)	15	(298)	16	(40)	(1,916)
	(96,318)	**(27,397)**	**232**	**(14,454)**	**5,543**	**(50)**	**(132,444)**
Carrying amount:							
Land	8,698	1,033	–	–	–	–	9,731
Buildings	14,218	3,135	28	(559)	(6)	(22)	16,794
Plant, machinery and other installations	22,046	10,086	(296)	3,960	(272)	299	35,823
Furniture	6,335	1,582	(59)	1,235	(29)	112	9,176
Motor vehicles	159	454	(15)	358	(13)	–	943
Information technology equipment	15,197	1,927	(80)	(1,215)	(243)	(185)	15,401
Other property, plant and equipment	160	1,366	67	1,341	(31)	(26)	2,877
Work in progress	1,576	161	(3)	1,813	–	(332)	3,215
Total	**68,389**	**19,744**	**(358)**	**6,933**	**(594)**	**(154)**	**93,960**

Thousands of Euros

	Balance at 31.12.04	New companies	Conversion differences	Additions	Disposals	Transfers	Balance at 31.12.05
Investments:							
Land	8,698	–	–	–	–	–	8,698
Buildings	24,475	–	–	8	–	–	24,483
Plant, machinery and other installations	69,702	659	42	4,265	(4,221)	140	70,587
Furniture	12,752	554	23	1,151	(144)	328	14,664
Motor vehicles	283	57	26	89	(133)	–	322
Information technology equipment	55,922	1,303	141	8,335	(23,027)	132	42,806
Other property, plant and equipment	1,817	–	47	120	(14)	(399)	1,571
Work in progress	1,651	103	–	171	–	(349)	1,576
	175,300	**2,676**	**279**	**14,139**	**(27,539)**	**(148)**	**164,707**
Depreciation:							
Buildings	(9,806)	–	–	(459)	–	–	(10,265)
Plant, machinery and other installations	(47,951)	(176)	(29)	(3,518)	3,135	(2)	(48,541)
Furniture	(6,798)	(352)	(15)	(1,195)	78	(47)	(8,329)
Motor vehicles	(107)	(44)	(8)	(47)	43	–	(163)
Information technology equipment	(42,065)	(732)	(75)	(7,689)	22,867	85	(27,609)
Other property, plant and equipment	(1,419)	–	–	(25)	13	20	(1,411)
	(108,146)	**(1,304)**	**(127)**	**(12,933)**	**26,136**	**56**	**(96,318)**
Carrying amount:							
Land	8,698	–	–	–	–	–	8,698
Buildings	14,669	–	–	(451)	–	–	14,218
Plant, machinery and other installations	21,751	483	13	747	(1,086)	138	22,046
Furniture	5,954	202	8	(44)	(66)	281	6,335
Motor vehicles	176	13	18	42	(90)	–	159
Information technology equipment	13,857	571	66	646	(160)	217	15,197
Other property, plant and equipment	398	–	47	95	(1)	(379)	160
Work in progress	1,651	103	–	171	–	(349)	1,576
Total	**67,154**	**1,372**	**152**	**1,206**	**(1,403)**	**(92)**	**68,389**

Thousands of Euros

Additions to plant, machinery and other installations during 2006 mainly reflect the refurbishment of the Parent Company's new installations in Barcelona. Additions to installations in 2005 mainly relate to the refurbishment of other installations of the Parent Company.

Additions to plant, machinery and other installations during the year ended 31 December 2006 include Euros 1,580 thousand corresponding to the proportional consolidation of the Jocs del Mediterrani joint venture (Euros 1,120 thousand in 2005).

The most significant additions to information technology equipment during 2006 and 2005 mainly relate to updates of these assets. Additions for 2005 also include Euros 2,095 thousand on the proportionate consolidation of the Indra Jocs del Mediterrani joint venture.

Details by nature of assets acquired through finance leases at 31 December 2006 and 2005 are as follows:

	2006	2005
Investments:		
Land	1,532	4,607
Buildings	2,500	11,951
Plant, machinery and other installations	5,007	1,655
Furniture	86	–
Information technology equipment	849	–
	9,974	**18,213**
Depreciation:		
Buildings	(492)	(4,683)
IPlant, machinery and other installations	(2,028)	(1,653)
Furniture	(16)	–
Information technology equipment	(632)	–
	(3,168)	**(6,336)**
Carrying amount:		
Land	1,532	4,607
Buildings	2,008	7,268
Plant, machinery and other installations	2,979	2
Furniture	70	–
Information technology equipment	217	–
Total	**6,806**	**11,877**

Thousands of Euros

As a result of the acquisition of the INISEL group in 1992, capital gains for a net amount of Euros 20,729 thousand were assigned by independent experts to certain assets. Details of the values assigned to assets currently held by the Group, net of accumulated depreciation at 31 December 2006 and 31 December 2005, are as follows:

Revalued assets	2006	2005
Land	5,401	5,401
Buildings	7,955	7,955
Plant and machinery	4,922	4,953
Total	**18,278**	**18,309**
Depreciation	(7,401)	(7,280)
Carrying amount	**10,877**	**11,029**

Thousands of Euros

At 31 December 2006 fully depreciated property, plant and equipment amount to Euros 86,226 thousand (Euros 56,590 thousand at 31 December 2005).

8. Investments in Associates

Details of investments in associates at 31 December 2006 and 2005 are as follows:

	Balance at 31.12.04	New companies	Investment	Trans-fers	Profit / (loss)	Balance at 31.12.05	Trans-fers	Profit / loss)	Balance at 31.12.06
SAES Capital	1,247	–	–	–	(275)	972	–	106	1,078
Algoritmos y Sistemas	868	–	–	(578)	(290)	–	–	–	–
Eurofighter Simulation Systems	606	–	–	–	152	758	–	(28)	730
Euromids	55	–	–	–	51	106	–	113	219
Indra Sistemas Tecnocom	–	–	2	–	–	2	–	93	95
Ceicom Europe	–	–	21	–	6	27	(47)	20	–
Computación Ceicom	–	–	436	–	(35)	401	(532)	131	–
Internet Protocol Sistemas Net	–	–	1,281	–	4	1,285	(1,346)	61	–
Trias Beltran	–	6	–	–	(2)	4	–	–	4
Corporación Legal	–	6	–	–	(6)	–	–	–	–
MRCM	–	–	–	–	–	–	51	(51)	–
Total	**2,776**	**12**	**1,740**	**(578)**	**(395)**	**3,555**	**(1,874)**	**445**	**2,126**

Thousands of Euros

Details of the main operations relating to investments in associates carried out in 2006 and 2005 are provided in note 1 c).

9. Other Investments

Movements in other investments during the years ended 31 December 2006 and 31 December 2005 are as follows:

	Balance at 31.12.05	New companies	Conversion differences	Additions	Disposals	Transfers	Balance at 31.12.06
Investments:							
Other long-term investments in non-Group companies	45,213	102	–	386	(2,265)	(51)	43,385
Fixed-income securities	671	188	(77)	65	(106)	–	741
Share options	4,805	–	–	–	(3,710)	–	1,095
Long-term guarantee deposits	1,836	1,119	(10)	540	(185)	(16)	3,284
Loans to personnel	–	–	–	40	–	–	40
Cash flow hedges	–	–	–	288	–	–	288
	52,525	**1,409**	**(87)**	**1,319**	**(6,266)**	**(67)**	**48,833**
Impairment:							
Others particip. permanentes in non-Group companies	(22,247)	(51)	–	(195)	1,473	–	(21,020)
	(22,247)	**(51)**	**–**	**(195)**	**1,473**	**–**	**(21,020)**
Carrying amount:							
Other long-term investments in non-Group companies	22,966	51	–	191	(792)	(51)	22,365
Fixed-income securities	671	188	(77)	65	(106)	–	741
Share options	4,805	–	–	–	(3,710)	–	1,095
Long-term guarantee deposits	1,836	1,119	(10)	540	(185)	(16)	3,284
Loans to personnel	–	–	–	40	–	–	40
Cash flow hedges	–	–	–	288	–	–	288
Total	**30,278**	**1,358**	**(87)**	**1,124**	**(4,793)**	**(67)**	**27,813**

Thousands of Euros

	Balance at 31.12.04	New companies	Conversion Differences	Additions	Disposals	Transfers	Balance at 31.12.05
Investments:							
Other long-term investments in non-Group companies	41,534	–	–	6,756	(1,450)	(1,627)	45,213
Fixed-income securities	626	–	82	–	(37)	–	671
Share options	5,167	–	–	–	(362)	–	4,805
Long-term guarantee deposits	1,488	143	3	351	(87)	(62)	1,836
Loans to personnel	7	–	–	–	(7)	–	–
	48,822	**143**	**85**	**7,107**	**(1,943)**	**(1,689)**	**52,525**
Impairment:							
Other long-term investments in non-Group companies	(21,911)	–	–	(675)	339	–	(22,247)
	(21,911)	**–**	**–**	**(675)**	**339**	**–**	**(22,247)**
Carrying amount:							
Other long-term investments in non-Group companies	19,623	–	–	6,081	(1,111)	(1,627)	22,966
Fixed-income securities	626	–	82	–	(37)	–	671
Share options	5,167	–	–	–	(362)	–	4,805
Long-term guarantee deposits	1,488	143	3	351	(87)	(62)	1,836
Loans to personnel	7	–	–	–	(7)	–	–
Total	**26,911**	**143**	**85**	**6,432**	**(1,604)**	**(1,689)**	**30,278**

Thousands of Euros

a. Other long-term investments in non-Group companies

Details are as follows:

	Balance at 31.12.05	New companies	Additions	Disposals	Transfers	Balance at 31.12.06
Investments:						
Midsco	52	–	–	–	–	52
Sadiel	39	–	–	–	–	39
Safelayer Secure Comunications	695	–	–	–	–	695
Marco Polo	3,694	–	–	(941)	–	2,753
Galileo Sistemas y Servicios	138	–	–	–	–	138
Inversis Networks	31,672	–	–	–	–	31,672
Hisdesat Servicios Estratégicos	7,572	–	–	–	–	7,572
Cadmo	1,274	–	–	(1,274)	–	–
MRCM	57	–	–	(6)	(51)	–
Neotec	12	–	378	–	–	390
Avanzit Telecom S.A.U.	–	44	–	(44)	–	–
Bussitel	–	50	–	–	–	50
Others	8	8	8		–	24
	45,213	**102**	**386**	**(2,265)**	**(51)**	**43,385**
Impairment:						
Midsco	(52)	–	–	–	–	(52)
Safelayer Secure Comunications	(71)	–	(81)	–	–	(152)
Marco Polo	(2,644)	–	–	–	–	(2,644)
Galileo Sistemas y Servicios	(8)	–	–	5	–	(3)
Inversis Networks	(17,788)	–	–	194	–	(17,594)
Hisdesat Servicios Estratégicos	(406)	–	(114)	–	–	(520)
Cadmo	(1,274)	–	–	1,274	–	–
Bussitel	–	(50)	–	–	–	(50)
Others	(4)	(1)	–	–	–	(5)
	(22,247)	**(51)**	**(195)**	**1,473**	**–**	**(21,020)**
Carrying amount:						
Midsco	–	–	–	–	–	–
Sadiel	39	–	–	–	–	39
Safelayer Secure Comunications	624	–	(81)	–	–	543
Marco Polo	1,050	–	–	(941)	–	109
Galileo Sistemas y Servicios	130	–	–	5	–	135
Inversis Networks	13,884	–	–	194	–	14,078
Hisdesat Servicios Estratégicos	7,166	–	(114)	–	–	7,052
Cadmo	–	–	–	–	–	–
MRCM	57	–	–	(6)	(51)	–
Neotec	12	–	378	–	–	390
Avanzit Telecom S.A.U.	–	44	–	(44)	–	–
Bussitel	–	–	–	–	–	–
Others	4	7	8	–	–	19
Total	**22,966**	**51**	**191**	**(792)**	**(51)**	**22,365**

Thousands of Euros

	Balance at 31.12.04	Additions	Disposals	Transfers	Balance at 31.12.05
Investments:					
Midsco	52	–	–	–	52
Sadiel	39	–	–	–	39
Safelayer Secure Comunications	432	263	–	–	695
Marco Polo	5,000	–	(1,306)	–	3,694
Galileo Sistemas y Servicios	138	–	–	–	138
Inversis Networks	25,191	6,481	–	–	31,672
BMB Gestión Documental	1,627	–	–	(1,627)	–
Hisdesat Servicios Estratégicos	7,572	–	–	–	7,572
Cadmo	1,274	–	–		1,274
Green-Tal	144	–	(144)	–	–
MRCM	57		–	–	57
Neotec	–	12	–	–	12
Others	8	–	–		8
	41,534	**6,756**	**(1,450)**	**(1,627)**	**45,213**
Impairment:					
Midsco	(52)	–	–	–	(52)
Safelayer Secure Comunications	(152)	–	81	–	(71)
Marco Polo	(2,168)	(476)	–	–	(2,644)
Galileo Sistemas y Servicios	(3)	(5)	–	–	(8)
Inversis Networks	(17,594)	(194)	–	–	(17,788)
Hisdesat Servicios Estratégicos	(520)	–	114	–	(406)
Cadmo	(1,274)	–	–	–	(1,274)
Green-Tal	(144)	–	144	–	–
Others	(4)	–	–	–	(4)
	(21,911)	**(675)**	**339**	**–**	**(22,247)**
Carrying amount:					
Midsco	–	–	–	–	–
Sadiel	39	–	–	–	39
Safelayer Secure Comunications	280	263	81	–	624
Marco Polo	2,832	(476)	(1,306)	–	1,050
Galileo Sistemas y Servicios	135	(5)	–	–	130
Inversis Networks	7,597	6,287	–	–	13,884
BMB Gestión Documental	1,627	–	–	(1,627)	–
Hisdesat Servicios Estratégicos	7,052	–	114	–	7,166
Cadmo	–	–	–	–	–
Green-Tal	–	–	–	–	–
MRCM	57	–	–	–	57
Neotec	–	12	–	–	12
Others	4	–	–	–	4
Total	**19,623**	**6,081**	**(1,111)**	**(1,627)**	**22,966**

Thousands of Euros

The following operations relating to long-term investments in non-Group companies have been carried out during 2006:

- On 21 February 2006 the Parent Company acquired 4,509 shares in Neotec Capital Riesgo Sociedad de Fondos, S.A., S.C.R. from the Technological Development Centre. On 5 December 2006 this company increased its share capital. The Parent Company subscribed 28,574 of the new shares thereby increasing its interest to 4.72%.
- At the annual general meeting held on 22 February 2006, the shareholders of Marco Polo Investments SRC S.A. approved the distribution of part of the share premium to return shareholder contributions. In September 2006 the shareholders also approved a share capital reduction. The resulting divestment totalled Euros 941 thousand.
- On 3 April 2006 the Parent Company sold its entire interest in Cadmo Conocimiento, S.L. for Euros 26 thousand (note 31).

The following operations relating to long-term investments in non-Group companies were carried out during 2005:

- On 23 June 2005 the Parent Company acquired a 7.74% interest in Safelayer for Euros 263 thousand, raising total interest held in the latter from 7.26% at 31 December 2004 to 15% at 31 December 2005.
- At the annual general meeting held on 28 June 2005, the shareholders of Marco Polo Investments SRC S.A. approved the distribution of part of the share premium to return shareholder contributions. The resulting divestment totalled Euros 1,306 thousand.

  In 2005 the value of the investment in this company was adjusted by Euros 476 thousand, which was taken to the accompanying consolidated income statement.

- Given that the Parent Company did not participate in the share capital increase preformed by Galileo Sistemas y Servicios, its interest in that company was reduced from 14.28% at 31 December 2004 to 13.45% at 31 December 2005.
- Inversis Networks carried out a number of share capital increases during 2005. The Parent Company subscribed Euros 6,481 thousand in these increases, of which Euros 1,147 thousand was pending payment (note 22).

  As a result of these share capital increases, the Parent Company's interest in the abovementioned company decreased from 19.973% at 31 December 2004 to 13.7445% at 31 December 2005.

- On 28 April 2005 the Parent Company acquired an additional 37% interest in BMB Gestión Documental, S.L., thereby bringing total interest held in that company from 13% at 31 December 2004 to 50% at 31 December 2005. BMB Gestión Documental, S.L. was proportionately consolidated in 2005.
- In 2005 Europraxis Atlante, S.L. sold its 7.69% interest in Green-Tal. Full provision had been made for this investment.
- On 23 December 2005 the Parent Company subscribed 1,200 shares in the incorporation of Neotec Capital Riesgo Sociedad de Fondos, S.A., S.C.R. for Euros 12 thousand.

  In 2005 only the impairment of the interest in Marco Polo Investments SRC was recorded under share of losses in other investees in the consolidated income statement, as the impairment was considered irreversible.

b. Share options

Share options relate to the valuation of the embedded derivative in the share capital increase used to hedge the 2002 Options Programme, 2nd tranche (see note 37.b).

c. Long-term guarantees

Long-term guarantees include guarantee deposits for rental of buildings and property used by the Group. Disposals during 2006 totalled Euros 185 thousand (Euros 78 thousand in 2005) and additions during the year amounted to Euros 540 thousand, reflecting deposits for leased property, as a result of moving activities to new work centres.

10. Long-Term Deposits

At 31 December 2006 long-term deposits include Euros 1,398 thousand that the Parent Company has pledged to guarantee possible adjustments in the acquisition price of shares in Internet Protocol Sistemas Net, S.A. (note 5).

As a result of the options programme, deposits of Euros 51,864 thousand were cancelled during 2005 and Euros 9,789 thousand was transferred to the short term (note 15).

11. Deferred Tax Assets

The evolution of deferred tax assets has been as follows:

	Balance at 01.01.05	Generated	Conv. differ.	Reversals	Balance at 31.12.05	New comp.	Generated	Conv. differ.	Reversals	Balance at 31.12.06
Deferred tax assets	21,828	9,791	3	(6,648)	24,974	4,024	16,566	(25)	(11,567)	33,972

Thousands of Euros

Details of deferred tax assets at 31 December 2006 and 2005 are as follows:

Item	2006	2005
Charges to and application of provisions	22,462	14,141
Amortisation of goodwill	4,395	4,701
Excess amortisation/depreciation of assets	2,634	2,592
Applications of pending deductions	1,763	1,555
Other	2,718	1,985
Deferred tax asset	33,972	24,974

Thousands of Euros

12. Income Tax Receivable

Details of tax assets at 31 December 2006 and 2005 are as follows:

	2006	2005
Prior years' recoverable income tax	271	157
Recoverable income tax for the year	857	556
Total	**1,128**	**713**

Thousands of Euros

13. Inventories

Details of inventories at 31 December 2006 and 2005 are as follows:

	2006	2005
Merchandise	1,469	42
Raw materials	980	–
Projects in progress	83,621	64,671
Provision	(776)	–
Carrying amount	**85,294**	**64,713**

Thousands of Euros

14. Trade and Other Receivables

Details of trade and other receivables at 31 December 2006 and 2005 are as follows:

	2006	2005
Non-Group trade debtors	686,252	492,572
Unbilled work in progress	346,243	299,195
Advances to suppliers	22,507	35,873
Other receivables	2,762	1,744
Total	**1,057,764**	**829,384**
Provisions	(14,110)	(8,955)
Carrying amount	**1,043,654**	**820,429**

Thousands of Euros

Advances to suppliers at 31 December 2006 and 2005 include Euros 15,129 thousand and Euros 25,346 thousand, respectively, relating to the Indra EWS/STN Atlas Leopard 2 joint venture.

15. Other Assets

Details of other assets at 31 December 2006 and 2005 are as follows

	2006	2005
Other receivables	2,634	4,354
Advances and loans to personnel	2,638	1,589
Public entities	12,072	5,360
Prepayments	1,052	769
Short-term deposits	4,598	9,789
Short-term guarantees	449	193
Cash flow hedges (note 37.a)	1,415	–
Interest receivable	5	195
Carrying amount	**24,863**	**22,249**

Thousands of Euros

Balances receivable from public entities comprise the following:

	2006	2005
Tax authorities:		
Value Added Tax	6,673	2,792
Other taxes	4,806	1,375
Pending requests for offset of income	357	229
Subtotal	**11,836**	**4,396**
Capital grants receivable from public entities	17	824
Social Security	219	140
Total	**12,072**	**5,360**

Thousands of Euros

Short-term deposits include deposits with the bank that subscribed the share capital increases, carried out through redeemable shares, to cover the options programmes. Details of the total amount at 31 December 2006 are as follows (notes 10 and 17):

Date of increase	Plan	No. of shares (*)	Deposit per share	Total deposit (Thousands of Euros)
21.03.2003	Opciones 2002 tramo 1	181,570	7.27	1,320
24.07.2003	Opciones 2002 tramo 2	174,870	6.59	1,152
				2,472

(*) The deposit must be equal at all times to the number of redeemable shares held by the financial institution multiplied by the amount of the deposit per share.

The average rate of interest generated on these deposits is 3.546%.

This caption also includes Euros 779 thousand of the deposit received to guarantee possible adjustments in the acquisition price of shares in Internet Protocol Sistemas Net, S.A. (note 5).

16. Cash and Cash Equivalents

Details are as follows:

	2006	2005
Short-term deposits and fixed-income securities	23,733	128,577
Other short-term investments	608	355
Subtotal	**24,341**	**128,932**
Cash	17,959	10,023
Total	**42,300**	**138,955**

Thousands of Euros

At 31 December 2006 and 2005 short-term deposits and fixed-income securities generate interest at average rates of 3.74% and 2.35%, respectively, and relate to temporary investments of surplus cash.

17. Equity

Details and movement in the Group's equity for the years ended 31 December 2006 and 2005 are shown in the attached statements of changes in consolidated equity.

Subscribed capital

At 31 December 2006 subscribed capital totals Euros 29,237,585.20 and is represented by 146,187,926 shares divided in the following categories:

- Series-A: 145,831,486 ordinary shares of Euros 0.20 par value each, numbered consecutively from 1 to 145,831,486, inclusive, and represented by book entries
- Series-C: 181,570 redeemable shares of Euros 0.20 par value each, numbered consecutively from 1 to 181,570, inclusive, and represented by book entries
- Series-D: 174,870 redeemable shares of Euros 0.20 par value each, numbered consecutively from 1 to 174,870, inclusive, and represented by book entries.

The share capital has been subscribed and fully paid.

All the shares of the Parent Company are listed on the Madrid, Barcelona, Valencia and Bilbao stock exchanges. The series-A shares are traded on the special New Market segment of the Automated Trading System and listed on the IBEX-35 index. Series C and D shares are traded through the fixing system. The New Market is a special segment of the Automated Trading System for technological or high growth securities.

The redeemable shares issued:

- may be converted to ordinary shares as the options are exercised for which they serve as financial coverage, or
- may be redeemed by the Company if these options are not exercised.

As a result of the different share capital increases instrumented through redeemable shares to cover the options programmes, at 31 December 2006 the Company has deposited funds totalling Euros 2,472 thousand with the bank which subscribed to the aforementioned share capital increases (Euros 9,789 thousand at 31 December 2005) (see notes 10 and 15).

In 2006, 585,249 series-C redeemable shares and 464,581 series-D redeemable shares were converted into ordinary series-A shares in connection with the exercise of options from the 2002 Options Programme (see note 37.b).

As the market price of shares at the date of the conversion to IFRS, at 31 December 2005 and at 31 December 2006, largely exceeds the exercise price of options (Euros 7.27 and Euros 6.59), the likelihood of the shares not being converted into ordinary shares is remote. The redeemable shares are therefore considered to have the necessary characteristics to be recorded as a capital instrument.

The Parent Company does not have a register from which to establish the percentage interests held by shareholders and can only verify the shareholding structure through direct communication from shareholders, if such details are publicised in application of prevailing legislation on significant shareholdings (which generally obliges notification of interests exceeding 5% of share capital), or through information provided by Iberclear, which the Company obtains when shareholders meetings are held.

Consequently, according to information available to the Company, the significant shareholders of the Company with an interest exceeding 5%, excluding any interest held on behalf of third parties, are as follows:

	31.12.06	31.12.05
Caja Madrid	14.982%	14.978%
Fidelity International Ltd.(*)	5.664%	5.127%
Caja de Ahorros de Asturias	5.618%	–
Barclays Bank Plc (*)	5.146%	5.146%
Casa Grande de Cartagena, S.L.	5.000%	–

(*) Based on C.N.M.V. register as at 31 December 2006

Shares owned either directly or indirectly by members of the board of directors at 31 December 2006 are as follows:

Directors	Type	Shares owned Direct	Indirect	Total	% of share capital
Javier Monzón de Cáceres	Executive	66,961	7,872	74,833	0.0512
Mediación y Diagnósticos,S.A. (1)(2)	Propietary	2,333	–	2,333	0.0016
Manuel Soto Serrano	Independent	2,333	110,000	112,333	0.0768
Humberto Figarola Plaja	Executive	29,758	–	29,758	0.0204
Isabel Aguilera Navarro	Independent	1,166	–	1,166	0.0008
Manuel Azpilicueta Ferrer	Independent	16,841	–	16,841	0.0115
Francisco Constans Ros	Independent	3,361	–	3,361	0.0023
Regino Moranchel Fernández	Executive	45,833	–	45,833	0.0314
Joaquín Moya-Angeler Cabrera	Independent	3,361	–	3,361	0.0023
Pedro Ramón y Cajal Agüeras	Independent	3,361	–	3,361	0.0023
Participaciones y Cartera de Inversión, S.L.(1)(3)	Propietary	2,333	–	2,333	0.0016
Juan Carlos Ureta Domingo	Independent	3,461	–	3,461	0.0024
Total		**181,102**	**117,872**	**298,974**	**0.2045**

(1) Company solely owned by Caja Madrid Group companies.

(2) Represented by Carlos Vela García-Noreña.

(3) Represented by Estanislao Rodríguez-Ponga y Salamanca.

Shares owned either directly or indirectly by members of the board of directors at 31 December 2005 were as follows:

		Shares owned			% of share
Directors	**Type**	**Direct**	**Indirect**	**Total**	**capital**
Javier Monzón de Cáceres	Executive	57,128	7,872	65,000	0.0445
Mediación y Diagnósticos,S.A. (1)(2)	Propietary	–	–	–	–
Manuel Soto Serrano	Independent	–	86,788	86,788	0.0594
Humberto Figarola Plaja	Executive	26,700	–	26,700	0.0183
Isabel Aguilera Navarro	Independent	–	–	–	–
Manuel Azpilicueta Ferrer	Independent	14,508	–	14,508	0.0099
Francisco Constans Ros	Independent	1,028	–	1,028	0.0007
Regino Moranchel Fernández	Executive	43,500	–	43,500	0.0298
Joaquín Moya-Angeler Cabrera	Independent	1,028	–	1,028	0.0007
Pedro Ramón y Cajal Agüeras	Independent	1,028	–	1,028	0.0007
Participaciones y Cartera de Inversión, S.L.(1)(3)	Propietary	–	–	–	–
Juan Carlos Ureta Domingo	Independent	1,128	–	1,128	0.0008
Total		**146,048**	**94,660**	**240,708**	**0.1647**

(1) Company solely owned by Caja Madrid Group companies.

(2) Represented by Carlos Vela García-Noreña. (3) Represented by Francisco Moure Bourio.

At 31 December 2006, 22,200,335 shares were represented on the board of directors, which amount to 15.47% of total shares. At 31 December 2005, 22,137,403 shares were represented on the board of directors, which amount to 15.143% of total shares.

At the annual general meetings of Parent Company shareholders held on 22 June 2006 and 27 June 2005, the shareholders agreed to the distribution of the consolidated profit for 2005 and 2004, respectively, as is shown in the statement of changes in equity, attached.

First-time application reserve

This reserve, which at 31 December 2006 amounts to Euros 2,406 thousand, comprises adjustments made to the opening balance sheet at 1 January 2004 in accordance with International Financial Reporting Standards (IFRS).

Others reserves

Details are as follows:

	2006	**2005**
Share premium	54,552	54,552
Merger reserve	1,846	1,846
Income and expense recognised in equity	2,335	407
Remuneration of employees	5,170	1,312
Total	**63,903**	**58,117**

Thousands of Euros

a. Share premium

The share premium deriving from the share capital increases carried out in 2001 and 2003 is subject to the same restrictions and may be used for the same purposes as the voluntary reserves of the Parent Company, including conversion into share capital.

b. Income and expense recognised in equity

This caption includes adjustments to the value of available-for-sale financial assets recognised under other investments (note 9 (a)) and profit on the disposal of treasury shares amounting to Euros 1,755 thousand (Euros 407 thousand in 2005). In 2006 the caption also includes the hedging reserve comprising the effect of changes in fair value of exchange rate insurance contracts used to hedge highly probable future transactions or firm commitments from the date of contract to 31 December 2006. Details are as follows:

	2006
Cash flow hedge	893
Deferred taxes for revaluation of unrealised assets and liabilities	(313)
Total	**580**

Thousands of Euros

c. Remuneration of employees

Remuneration of employees comprises amounts accrued on shares granted to members of the board of directors, and share options extended to employees. Details are as follows:

	2006	2005
Remuneration through shares	420	420
Share options	4,750	892
Total	**5,170**	**1,312**

Thousands of Euros

Treasury shares

As authorised by the shareholders at their annual general meeting, at 31 December 2006 the Parent Company directly holds 76,697 treasury shares amounting to Euros 1,411 thousand (32,948 shares amounting to Euros 522 thousand at 31 December 2005).

At 31 December 2006 the Parent Company indirectly holds 2,281,000 shares amounting to Euros 38,389 thousand in connection with the equity swap contracted with a financial entity to hedge the 2005 Options Programme. These shares were acquired in 2005 (see note 22).

Details and movement in own shares during 2006 and 2005 are as follows:

	Balance at 31.12.05	Additions	Disposals	Balance at 31.12.06
Used in:				
-Ordinary transactions	552	88,216	(87,357)	1,411
-Equity Swap Options Programme 2005	38,389	–	–	38,389
Total	**38,941**	**88,216**	**(87,357)**	**39,800**

Thousands of Euros

	Balance at 31.12.04	Additions	Disposals	Redemptions	Balance at 31.12.05
Used in:					
-Options issued 2003	355	–	(355)	–	–
-Options issued 2005 (note 37 b)	–	3,678	(3,678)	–	–
-Ordinary transactions	947	121,107	(18,555)	(102,947)	552
-Equity Swap O.P. 2005	–	38,389	–	–	38,389
Total	**1,302**	**163,174**	**(22,588)**	**(102,947)**	**38,941**

Thousands of Euros

Details and movement in shares during 2006 and 2005 are as follows:

	% total		Number of shares			% total
	capital	31.12.05	Additions	Disposals	31.12.06	capital
Used in:						
-Ordinary transactions	0.02	32,948	5,528,831	(5,485,082)	76,697	0.05
-Equity Swap P.O. 2005	1.56	2,281,000	–	–	2,281,000	1.56
Total	**1.58**	**2,313,948**	**5,528,831**	**(5,485,082)**	**2,357,697**	**1.61**

	% total			Number of shares			% total
	capital	31.12.04	Additions	Disposals	Redemptions	31.12.05	capital
Used in:							
-Options 2003	0.03	42,300	–	(42,300)	–	–	–
-Options 2005	–	–	224,024	(224,024)	–	–	–
-Ordinary transactions	0.05	75,184	8,817,767	(1,165,902)	(7,694,101)	32,948	0.02
-Equity Swap P.O. 2005	–	–	2,281,000	–	–	2,281,000	1.56
Total	**0.08**	**117,484**	**11,322,791**	**(1,432,226)**	**(7,694,101)**	**2,313,948**	**1.58**

In 2006 the Parent Company acquired 5,528,831 treasury shares on the stock market (2.10% of official volume for the period) and sold 5,485,082 treasury shares (2.08% of official volume for the period).

In 2005 the Parent Company acquired 9,041,791 treasury shares on the stock market (3.01% of annual volume), of which 7,694,101 shares were redeemed in accordance with the Company's plan, and sold 1,432,226 treasury shares (0.48% of annual volume).

Retained earnings

Details are as follows:

	2006	2005
Legal reserve	6,176	6,176
Reserves in fully-consolidated companies	21,688	30,512
Reserves in proportionately-consolidated companies	1,034	–
Merger reserve	15,081	–
Reserves in equity-accounted companies	790	583
Voluntary reserves	123,463	85,456
Non-distributable reserves	8,730	4,339
Total	**176,962**	**127,066**

Thousands of Euros

a. Legal reserve

Companies are obliged to transfer 10% of the profits for the year to a legal reserve until such reserve reaches an amount equal to 20% of the share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. Under certain conditions it may also be used to increase share capital. At 31 December 2006 and 2005, the Parent Company has appropriated to this reserve the minimum amount required by law.

b. Reserves in fully-consolidated companies

Details by company of consolidation reserves at 31 December 2006 and 2005 are as follows:

	2006	2005
Indra Sistemas	1,228	358
Indra ATM	–	12,684
Indra Emac	1	(1)
Indra Espacio	17,092	14,449
Indra Sistemas de Seguridad	2,188	2,180
Indra SI	(129)	(50)
Indra Sistemas Chile	38	239
Indra Sistemas Portugal	(8)	17
Grupo Europraxis-Atlante	(154)	62
Indra Italia	496	503
Inmize Capital	(96)	(98)
Inmize Sistemas	256	131
Indra Systems	(12)	9
Indra Beijing	(15)	14
Indra Brasil	751	6
Indra Centros de Desarrollo	(5)	9
Indra Méjico	57	–
Total	**21,688**	**30,512**

Thousands of Euros

c. Reserves in proportionately-consolidated companies

Details by company of consolidation reserves at 31 December 2006 and 2005 are as follows:

	2006	2005
Grupo BMB	1,034	–
Total	**1,034**	**–**

Thousands of Euros

d. Merger reserve

This reserve relates to the downstream merger of the Parent Company with its solely-owned subsidiary Indra ATM, S.L., Sociedad Unipersonal, in 2006.

e. Reserves in equity-accounted companies

Details by company of consolidation reserves at 31 December 2006 and 2005 are as follows:

	2006	2005
Eurofighter Simulation System	690	538
Euromids	96	45
Trias Bertrán	4	–
Total	**790**	**583**

Thousands of Euros

Profit for the year attributable to the Parent Company

Details of the consolidated companies' contribution to profit for 2006 and 2005 are disclosed in Appendix I attached.

Minority interests

Movement in minority interests in fully-consolidated companies during 2006 and 2005 is as follows:

	Balance at 31.12.05	New companies	Profit/(loss) attrib. to minority shlds	Conversion Differences	Dividends	Change in % ownership	Profit/(loss) booked in equity	Balance at 31.12.06
Indra Espacio	17,254	–	2,064	–	–	–	(35)	19,283
Inmize Capital	313	–	(1)	–	–	–	–	312
Inmize Sistemas	1,733	–	1,405	–	–	–	–	3,138
Tourism & Leisure	12	–	77	–	–	–	–	89
BMB Ges.Doc.Canarias	63	–	37	–	(25)	–	–	75
CDS Corp.Serv.Ext.	316	–	20	–	–	–	–	336
IP Sistemas	–	491	73	–	–	(158)	–	406
I.S. Comunicaciones Seguras	–	450	63	–	–	–	–	513
Azertia T. I. México	–	691	38	27	–	–	–	756
Azertia T. I. U.S.A.	–	113	(22)	(2)	–	–	–	89
Advanced Logistics Group	–	1,258	67	–	–	–	–	1,325
Total	**19,691**	**3,003**	**3,821**	**25**	**(25)**	**(158)**	**(35)**	**26,322**

Thousands of Euros

	Balance at 31.12.04	New companies	Results attrib. to minority interests	Income recorded in equity	Exit of companies	Balance at 31.12.05
Indra ATM	18,630	–	607	–	(19,237)	–
Indra Emac	589	–	77	–	(666)	–
Indra Espacio	14,704	–	2,515	35	–	17,254
Inmize Capital	315	–	(2)	–	–	313
Inmize Sistemas	1,533	–	200	–	–	1,733
Tourism & Leisure	–	–	12	–	–	12
Compraxis Portugal	52	–	(52)	–	–	–
BMB Ges.Doc.Canarias	–	54	9	–	–	63
CDS Corp.Serv.Ext.	–	318	(2)	–	–	316
Total	**35,823**	**372**	**3,364**	**35**	**(19,903)**	**19,691**

Thousands of Euros

Balances related to minority interests at 31 December 2006 and 2005 are as follows:

	31.12.06				31.12.05			
	M.I. share capital	M.I. reserves	M.I. profit/(loss)	Total	M.I. share capital	M.I. reserves	M.I. profit/(loss)	Total
Indra Espacio	294	16,925	2,064	19,283	294	14,445	2,515	17,254
Inmize Capital	32	281	(1)	312	32	283	(2)	313
Inmize Sistemas	500	1,233	1,405	3,138	500	1,033	200	1,733
Tourism & Leisure	18	(6)	77	89	18	(18)	12	12
Compraxis Portugal	1	(1)	–	–	1	51	(52)	–
BMB G.D.Canarias	1	37	37	75	1	53	9	63
CDS Corp.Serv.Ext.	312	4	20	336	312	6	(2)	316
IP Sistemas	32	301	73	406	–	–	–	–
I.S. Comunicaciones Seguras	50	400	63	513	–	–	–	–
Azertia T.I. Méjico	220	498	38	756	–	–	–	–
Azertia T.I. U.S.A.	356	(245)	(22)	89	–	–	–	–
Advanced Logistics Group	157	1,101	67	1,325	–	–	–	–
Total	**1,973**	**20,528**	**3,821**	**26,322**	**1,158**	**15,853**	**2,680**	**19,691**

Thousands of Euros

18. Earnings Per Share

The calculation of the weighted average number of ordinary shares available and the weighted average number of diluted shares at 31 December 2006 and 2005 is as follows:

	Weighted average of ordinary shares at 31.12.06	Ordinary shares at 31.12.06	Weighted average of ordinary shares at 31.12.05	Ordinary shares at 31.12.05
Total issued shares	146,187,926	146,187,926	150,393,135	146,187,926
Own shares and financial instruments related to shares	(2,613,366)	(2,357,697)	(3,151,197)	(2,313,948)
Total shares available	**143,574,560**	143,830,229	**147,241,938**	143,873,978
Total number of diluted shares	**143,574,560**	143,830,229	**147,241,938**	143,873,978

The calculation of basic earnings per share (rounded to four decimal places) for 2006 and 2005 is as follows:

	2006	2005
Net profit (thousands of Euros)	114,115	104,064
Weighted average number of ordinary shares available	143,574,560	147,241,938
Basic earnings per ordinary share (Euros)	**0.7948**	**0.7068**

The calculation of diluted earnings per share (rounded to four decimal places) for 2006 and 2005 is as follows:

	2006	2005
Net profit (thousands of Euros)	114,115	104,064
Weighted average number of ordinary and diluted shares available	143,574,560	147,241,938
Basic earnings per ordinary diluted share (Euros)	**0.7948**	**0.7068**

19. Capital Grants

Details and movement in capital grants in 2006 and 2005 are as follows:

	Balance at 31.12.05	Additions	New companies	Taken to profit/loss	Transfers	Balance at 31.12.06
Capital grants	11,167	4,798	749	(4,741)	(185)	11,788
Thousands of Euros						

	Balance at 31.12.04	Additions	Re|payment	Taken to profit/loss	Balance at 31.12.05
Capital grants	10,907	2,729	(456)	(2,013)	11,167
Thousands of Euros					

Capital grants have been awarded by various public entities for development projects (see note 6) and training programmes.

20. Provisions for Liabilities and Charges

Details and movement during 2006 and 2005 are as follows:

	Balance at 31.12.05	New companies	Charges	Applications	Conv. differences	Transfers	Balance at 31.12.06
Provisions for taxes	1,075	–	48	(69)	(27)	53	1,080
Others provisiones	2,133	16	1,540	(44)	–	(53)	3,592
Total	**3,208**	**16**	**1,588**	**(113)**	**(27)**	**–**	**4,672**

Thousands of Euros

	Balance at 31.12.04	Charges	Applications	Conv. differences.	Payments 2005	Balance at 31.12.06
Provisions for taxes	2,539	250	(468)	4	(1,250)	1,075
Others provisiones	2,812	840	(1,402)	1	(118)	2,133
Total	**5,351**	**1,090**	**(1,870)**	**5**	**(1,368)**	**3,208**

Thousands of Euros

Details of provisions and their corresponding temporary difference and expected maturity dates are as follows:

Tax provisions	Balance at 31.12.05						Balance at 31.12.06		
Item	Balance	Deferred tax asset	Applications	Conv. diff.	Charges	Transfers	Balance	Deferred tax asset	Expected application date
Appeals filed with the tax authorities	1,075	840	(69)	(27)	48	53	1,080	797	2007 2008
Total tax provisions	**1,075**	**840**	**(69)**	**(27)**	**48**	**53**	**1,080**	**797**	

Thousands of Euros

Tax provisions	Balance at 31.12.04						Balance at 31.12.05		
Item	Balance	Deferred tax asset	Payments	Applications	Conv. diff.	Charges	Balance	Deferred tax asset	Expected application date
Appeals filed with the tax authorities	1,805	1,076	(644)	(340)	4	250	1,075	840	2006 2007
Appeals filed with city councils	734	92	(606)	(128)	–	–	–	–	
Total tax provisions provisions	**2,539**	**1,168**	**(1,250)**	**(468)**	**4**	**250**	**1,075**	**840**	

Thousands of Euros

Others provisiones	Balance at 31.12.05							Balance at 31.12.06		
Item	Balance	Deferred tax asset	New companies	Transfers	Applications	Conv. diff.	Charges	Balance	Deferred tax asset	Expected application date
Trade appeals	1,810	29	16	(53)	(11)	–	520	2,282	423	2007 and 2008
Personnel claims	323	36	–	–	(33)	–	1,020	1,310	1,023	2008
Total others provisiones	**2,133**	**65**	**16**	**(53)**	**(44)**	**–**	**1,540**	**3,592**	**1,446**	

Thousands of Euros

Others provisiones	Balance at 31.12.04							Balance at 31.12.05		
Item	Balance	Deferred tax asset	Payments	Transfers	Applications	Conv. diff.	Charges	Balance	Deferred tax asset	Expected application date
Trade appeals	1,649	242	(81)	–	(189)	–	431	1,810	29	2006 and 2007
Provision for deposits	411	411	–	–	(411)	–	–	–	–	
Personnel claims	752	752	(37)	–	(802)	1	409	323	36	2007
Total others provisiones	**2,812**	**1,405**	**(118)**	**–**	**(1,402)**	**1**	**840**	**2,133**	**65**	

Thousands of Euros

The amounts of appeals pending resolution before courts and city councils have been capitalised to the present value using the delay interest capitalisation rate for each year.

21. Long-Term Borrowings

Details by maturity of long-term borrowings at 31 December 2006 are as follows:

	2006			
Year	Finance leases	Credit entities	R&D loans	Total
2008	803	5,779	10,821	17,403
2009	718	486	9,120	10,324
2010	27	1,679	6,751	8,457
Prior years	–	573	16,932	17,505
Total al 31.12.06	**1,548**	**8,517**	**43,624**	**53,689**

Thousands of Euros

Long-term borrowings from credit entities include Euros 8,345 thousand in connection with loans extended to the Azertia subgroup, which accrue interest at between Euribor plus 0.45 and Euribor plus 1.20.

Details by maturity of long-term borrowings at 31 December 2005 are as follows:

	2005		
Años	Finance leases	R&D loans	Total
2007	442	9,851	10,293
2008	478	10,465	10,943
2009	–	9,002	9,002
Prior years	–	22,083	22,083
Total al 31.12.05	**920**	**51,401**	**52,321**

Thousands of Euros

22. Other Long-Term Payables

Details of other long-term payables are as follows:

	2006	2005
Guarantee deposits received	2,409	–
Payable on investments	–	159
Suppliers of fixed assets	2,319	–
Equity swap	38,389	38,389
Uncalled share capital	–	1,147
Other long-term debt	27	36
Total	**43,144**	**39,731**

Thousands of Euros

At 31 December 2006 guarantee deposits received include Euros 1,398 thousand for deposits by the Parent Company to guarantee possible adjustments to the acquisition price of share capital of Internet Protocol Sistemas Net, S.A. (see notes 5 and 10).

Guarantee deposits also include Euros 1,011 thousand deposited by Europraxis Atlante, S.L. to guarantee possible adjustments to the acquisition price of shares in Advanced Logistic Group, S.L. (notes 5, 10 and 15).

At 31 December 2006 suppliers of fixed assets include Euros 2,136 thousand corresponding to the Jocs del Mediterrani joint venture.

Equity swap relates to debt for the financial instrument used to hedge the 2005 Options Programme (see note 17).

In 2005 uncalled share capital related to the amount pending payment for the Inversis share capital increase (note 9 (a)). This amount was paid during 2006.

23. Deferred Tax Liabilities

Details of deferred tax liabilities in 2006 and 2005 are as follows:

	01.01.05	Generated	Reversals	Balance at 31.12.05	New Companies	Generated	Reversals	Balance at 31.12.06
Deferred tax liabilities	10,246	5,199	(1,246)	14,199	119	4,790	(3,604)	15,504

Thousands of Euros

Details of movement in deferred tax liabilities during the years ended 31 December 2006 and 2005 are as follows:

Item	Balance at 31.12.06	Balance at 31.12.06
Finance lease operations	1,013	1,029
Taxable gains	2,847	3,630
Portfolio provisions	4,697	2,716
Amortisation of goodwill	3,391	2,273
Restatement of R&D loans	2,632	3,311
Others	924	1,240
Deferred tax liabilities	**15,504**	**14,199**

Thousands of Euros

24. Income Tax Payable

Details of income tax payable at 31 December 2006 and 2005 are as follows:

	2006	2005
Income tax (prior years)	593	255
Income tax (current year)	16,326	11,672
Income tax abroad	1,698	470
Total	**18,617**	**12,397**

Thousands of Euros

25. Trade and Other Payables

Details of trade and other payables at 31 December 2006 and 2005 are as follows:

	2006	2005
Trade payables	356,919	323,345
Advances from clients	509,338	431,391
Total	**866,257**	**754,736**

Thousands of Euros

26. Other Current Liabilities

Details of other current liabilities at 31 December 2006 and 2005 are as follows:

	2006	2005
Public entities	65,362	36,833
Salaries payable	34,497	21,793
Options	927	5,430
Guarantee deposits received	1,386	82
Trade provisions	29,094	5,676
Accruals	2,069	2,730
Other payables	4,843	1,080
Total	**138,178**	**73,624**

Thousands of Euros

Balances due to public entities comprise the following:

	2006	2005
Tax authorities		
VAT	37,934	21,621
Withholding tax on salaries	10,821	7,389
Other taxes	5,348	1,255
Subtotal	**54,103**	**30,265**
Grants repayable to public entities	109	–
Social Security	11,150	6,568
Total	**65,362**	**36,833**

Thousands of Euros

27. Current Borrowings

Details of current borrowings at 31 December 2006 and 2005 are as follows:

	2006	2005
Loans	34,391	22,321
Interest payable	523	265
Finance leases	1,670	1,050
Total	**36,584**	**23,636**
Official loans for research programmes (note 6)	10,890	8,867
Total	**47,474**	**32,503**

Thousands of Euros

28. Segment Reporting

Information on the Group's business segments is as follows:

	2006							
Segment reporting at 31 December 2006:	Solutions	%	Services	%	Unallocated corporate	Eliminations	Total	%
Revenue from external customers	1,039,927	99	366,853	100	–	–	1,406,780	100
Inter-segment revenue	6,291	1	1,462	0	–	(7,753)	–	–
Net sales	**1,046,218**	**100**	**368,315**	**100**	**–**	**(7,753)**	**1,406,780**	**100**
Contribution margin	**220,992**	**21**	**72,400**	**20**	**–**	**(1,096)**	**292,296**	**21**
Other corporate, unallocated income and expense	–		–		(129,532)	851	(128,681)	–9
Operating results	**220,992**		**72,400**		**(129,532)**	**(245)**	**163,615**	**12**
Share of profit/(loss) of associates	201		245		–	–	446	0
Segment result	**221,193**	**21**	**72,645**	**20**	**(129,532)**	**(245)**	**164,061**	**12**
Other information								
Investments	15,347		5,167		18,452	–	38,966	
Amortisation/Depreciation	6,343		4,275		10,214	–	20,832	
Provisions	1,082		529		1,967	–	3,578	
Balance sheet								
Assets								
Segment assets	1,138,533		294,278		136,467	–	1,569,278	
Investment in associates	2,029		97		–	–	2,126	
Total consolidated assets							**1,571,404**	
Liabilities								
Segment liabilities	725,682		163,674		309,967	–	1,199,323	
Total consolidated liabilities							**1,199,323**	

Thousands of Euros

Geographic segment reporting at 31 December 2006:	Spain	EU	USA and Canada	Latin America	Other	Total
			2006			
Revenue from external customers	944,789	289,839	44,824	62,062	65,266	1,406,780
Investments	35,248	356	63	3,287	12	38,966
Assets used	1,444,465	33,210	12,701	76,151	4,877	1,571,404

Thousands of Euros

Segment reporting at 31 December 2005:	Solutions	%	Services	%	Unallocated corporate	Eliminations	Total	%
				2005				
Revenue from external customers	916,078	100	286,156	100	–	–	1,202,234	100
Inter-segment revenue	2,124	0	1,390	0	–	(3,514)	–	–
Net sales	**918,202**	**100**	**287,546**	**100**	**–**	**(3,514)**	**1,202,234**	**100**
Contribution margin	**185,314**	**20**	**56,415**	**20**	**(3,533)**	**(1,448)**	**236,748**	**20**
Other corporate, unallocated income and expense	–		–		(94,839)	438	(94,401)	–8
Operating results	**185,314**		**56,415**		**(98,372)**	**(1,010)**	**142,347**	**12**
Share of profit/(loss) of associates	(68)		(254)		–	–	(322)	0
Segment result	**185,246**	**20**	**56,161**	**20**	**(98,372)**	**(1,010)**	**142,025**	**12**
Other information								
Investments	6,173		1,803		11,424	–	19,400	
Amortisation/Depreciation	2,764		3,401		11,378	–	17,543	
Provisions			–		771	–	771	
Balance sheet								
Assets								
Segment assets	847,930		199,969		245,126	–	1,293,025	
Investment in associates	3,127		428		–	–	3,555	
Total consolidated assets							**1,296,580**	
Liabilities								
Segment liabilities	644,309		101,400		248,177	–	993,886	
Total consolidated liabilities							**993,886**	

Thousands of Euros

Geographic segment reporting at 31 December 2005:	Spain	EU	USA and Canada	Latin America	Other	Total
			2005			
Revenue from external customers	775,571	281,620	36,994	57,705	50,344	1,202,234
Investments	17,911	654	131	649	55	19,400
Assets used	1,226,850	24,349	8,533	31,895	4,953	1,296,580

Thousands of Euros

29. Materials Consumed and Other Supplies

The total cost of materials consumed and other supplies incurred by the Group during the years ended 31 December 2006 and 2005 is as follows:

	2006	2005
Subcontracted work and materials consumed	602,032	566,494
Change in stocks	(11)	42
Total	**602,021**	**566,536**

Thousands of Euros

30. Personnel Expenses

Details of personnel expenses during the years ended 31 December 2006 and 2005 are as follows:

	2006	2005
Wages and salaries	358,741	273,995
Options (note 37 (b))	3,065	1,271
Social security and other social charges	96,940	76,699
Total	**458,746**	**351,965**

Thousands of Euros

The average number of employees during 2006 and 2005, distributed by category, has been as follows:

	2006	2005
Management	169	122
Graduates and engineers	8,049	6,208
Administrative staff	1,548	463
Labourers	809	411
Other staff	36	380
Total	**10,611**	**7,584**

Thousands of Euros

31. Share of Profit/(Loss) of Investees

Details at 31 December 2006 and 2005 are as follows:

	2006	2005
Profit on the disposal of other investments (note 9 (a))	60	–
Losses on valuation adjustments to available-for-sale financial assets (note 9 (a))	–	(476)
	60	**(476)**

Thousands of Euros

32. Other Losses on Non-Current Assets

Details at 31 December 2006 and 2005 are as follows:

	2006	2005
Losses on property, plant and equipment	(382)	(714)
Losses on intangible assets	(124)	(2)
	(506)	**(716)**

Thousands of Euros

33. Foreign Currency Transactions

The main transactions in foreign currencies other than the Euro in 2006 and 2005 have been as follows:

	2006	2005
Sales	145,348	88,232
Purchases	141,370	107,292

Thousands of Euros

34. Guarantees

At 31 December 2006 various banks and insurance companies have extended guarantees of Euros 597,096 thousand to third parties on behalf of the Group, mainly to secure the completion of contracts. At 31 December 2005 guarantees totalled Euros 638,856 thousand.

35. Taxation

The Parent Company files consolidated tax returns as the parent of tax group 26/01, which comprises the Parent Company and the subsidiaries Indra Sistemas de Seguridad, S.A., Inmize Capital, S.L., Europraxis-Atlante, S.L., Indra Centros de Desarrollo, S.L., Itec Air Traffic Management, S.L., Indra Emac, S.A. and Indra Sistemas de Comunicaciones Seguras, S.L.

Due to the treatment permitted by tax legislation for certain transactions, the accounting profit differs from taxable income. A reconciliation of the accounting profit for the year with the taxable income of the companies which form part of the Group and the income tax expense calculation at 31 December 2006 and 2005 are as follows.

Items	2006	2005
A.- Accounting profit before tax	**162,174**	**145,311**
* Adjustments to accounting profit		
– Non-deductible provisions for/reversals of investments	(94)	469
– Other positive differences	1,237	7,647
– Other negative differences	(3,712)	(3,759)
– Gains on treasury shares	2,000	178
– Options	3,065	1,271
– Consolidation adjustments	5,847	3,303
Total adjustments to accounting profit	**8,343**	**9,109**
B.- Adjusted accounting profit	**170,517**	**154,420**
* Temporary differences		
– Positive, generated during the year	46,620	23,757
– Positive, generated in prior years	2,621	3,586
– Negative, generated during the year	(14,635)	(14,881)
– Negative, generated in prior years	(19,173)	(13,895)
Total temporary differences	**15,433**	**(1,433)**
C.- Taxable income	**185,950**	**152,987**
D.- Prior years' loss carryforwards	–	(112)
E.- Adjusted taxable income	**185,950**	**152,875**
Tax payable	**65,994**	**53,554**
* Deductions		
– Internal double taxation relief	(1,676)	(995)
– International double taxation relief	(1,417)	(493)
– Investments in R&D and others	(11,493)	(11,189)
F.- Credit for loss carryforwards	**–**	**(38)**
G.- Taxes on foreign salaries	**235**	**217**
H.- Total taxes payable	**51,643**	**41,056**
Withholdings and payments on account	36,268	29,806
Tax recoverable/(payable)	**15,375**	**11,250**
I.- Deferred tax assets generated for the year	(17,761)	(9,615)
J.- Deferred tax assets recovered	9,198	5,707
K.- Deferred tax liabilities generated for the year	4,774	5,207
L.- Deferred tax liabilities reversed	(1,844)	(1,246)
M.- Credits in respect of loss carryforwards generated	(793)	(46)
N.- Credits in respect of loss carryforwards applied	547	38
Accrued income tax (H+I+J+K+L+M+N)	**45,764**	**41,101**
Income tax of companies registered abroad	**1,415**	**1,006**
Prior years' income tax	**(3,615)**	**(4,224)**
Income tax for adjustments in equity	**(1,323)**	**–**
Income tax for different tax rates	**1,997**	**–**
O.- Income tax for the year	**44,238**	**37,883**
Total profit after tax (A-O)	**117,936**	**107,428**

Thousands of Euros

Details of deferred tax assets and liabilities and movement recorded by the Group are disclosed in notes 11 and 23.

A reconciliation of the legal tax rate and the effective tax rate applied by the Company is as follows:

	2006	
		%
Consolidated profit (before tax)	**162,174**	
– Income tax at the rate applicable in Spain	56,761	35.00
– Tax on foreign salaries	235	0.14
– Effect of permanent differences	2,920	1.80
– Effect of deductions	(14,586)	–8.99
– Effect of other income tax adjustments from prior years	(3,615)	–2.23
– Effect of tax credits generated-applied	(246)	–0.15
– IFRS adjustments	(1,323)	–0.82
– Income tax abroad	1,415	0.87
– Effect of different tax rates	1,997	1.23
– Effect of different international tax rates	680	0.42
	44,238	**27.28**

Thousands of Euros

	2005	
		%
Consolidated profit (before tax)	**145,311**	
– Income tax at the rate applicable in Spain	50,859	35.00
– Effect of permanent differences	3,186	2.19
– Effect of deductions	(12,677)	–8.72
– Effect of other income tax adjustments from prior years	(4,224)	–2.91
– Effect of tax loss carryforwards from prior years	(39)	–0.03
– Effect of tax credits generated-applied	(46)	–0.03
– IFRS adjustments	(509)	–0.35
– Income tax abroad	1,006	0.69
– Effect of different international tax rates	327	0.23
	37,883	**26.07**

Thousands of Euros

Details of loss carryforwards pending compensation and credits for investment, training and export activities at 31 December 2006 and 2005 are as follows:

	2006	
Year of origin	**Credits for investments and others**	**Loss carryforwards**
2002 and prior years	4,010	194
2003	499	663
2004	1,036	129
2005	2,271	17
2006	1,239	
Total al 31.12.06	**9,055**	**1,003**

Thousands of Euros

	2005	
	Credits for investments	Loss
Year of origin	and others	carryforwards
2002 and prior years	965	20
2003	–	72
2004	–	683
Total al 31.12.05	**965**	**775**

Thousands of Euros

At 31 December 2006 and 2005 the Group has no reinvestment commitments.

In accordance with Spanish tax legislation, taxes cannot be considered definitive until they have been inspected and agreed by the tax authorities or before the inspection period of four years has elapsed.

During 2005 the tax authorities notified the Parent Company that inspection had been opened on the main taxes applicable from 2000 to 2003. In 2005 the remaining companies forming part of the tax group received notifications of tax inspections as well.

During the year ended 31 December 2006 the tax authorities completed their inspection of Sociedad Europraxis Atlante, S.L.

The tax inspections of Indra EWS, S.A. (absorbed in 2002), Indra Sistemas de Seguridad, S.A., Inmize Capital, S.L., Computer Center Dos, S.L. (absorbed in 2002) and Sistemas Integrales Indraseg, S.L. (absorbed in 2004) were completed at the 2005 year end.

The Group companies consider that all applicable taxes for the years open to inspection have been properly filed and settled. However, in the event of inspection, discrepancies could arise regarding the interpretation of certain tax legislation, although the companies do not expect that any additional tax liabilities would be significant to the accompanying consolidated annual accounts taken as a whole.

36. Risk Management and Hedging Policies

The Indra Group manages and limits its financial risks based on policies approved at the highest executive level and in accordance with established regulations, policies and procedures. The Indra corporate management team is responsible for identifying and evaluating financial risks and ensuring that they are duly hedged.

1. Market risk (exchange rate)

The exchange rate risk arises on the international operations the Indra Group carries out in the ordinary course of its business.

In order to eliminate the impact of exchange rate differences on the projects carried out by the Parent Company and its subsidiaries, forward purchases and sales of foreign currency are arranged with banks.

Indra analyses the exchange rate risk at the time each individual project contract is signed, and contracts exchange rate insurance policies to ensure that future profits are not affected by fluctuations in the exchange rate.

2. Interest rate risk

In 2006 the Indra Group has had both positive and negative net cash positions. Cash surpluses have been placed in short-term money market instruments and temporary cash flow requirements have been covered by variable-interest rate credit facilities from different credit entities.

The majority of debt relates to long-term interest-free research and development loans received from the Ministry of Industry. The Group has not contracted any interest rate hedging instruments at 31 December 2006.

3. Liquidity risk

The Indra Group invests cash surpluses in highly liquid, non-speculative short-term instruments through prestigious financial entities. The Group has contracted sufficient credit facilities with various financial entities to cover cash shortfalls and meet its short-term commitments.

4. Credit risk

Indra is exposed to credit risk from possible default by clients. Although Indra's client portfolio has a very good credit rating, the Company uses irrevocable credit notes and insurance hedging policies to insure collections, especially in the international sales area. In addition, the client's financial solvency positions are analysed from the moment of initial application in order to approve any operations with the client.

37. Commitments and Other Contingent Liabilities

a. Foreign currency commitments

The Group arranged forward currency purchase agreements to cover open foreign currency positions at 31 December 2006 (see note 4.p). These commitments are as follows:

	Amount in foreign currency			
Currency	**Short-term**		**Long-term**	
	Purchase	**Sale**	**Purchase**	**Sale**
US Dollars	47,162,026	62,201,487	10,663,618	28,233,668
Pounds Sterling	4,929,578	87,207	2,705,963	–
Swiss Francs	4,630,248	–	4,134,332	–
Chilean Peso	–	763,303,211	–	–
Argentinean Peso	1,100,000	–	–	–
Moroccan Dirham	–	2,782,429	–	–
Mexican Peso	–	31,685,955	–	2,432,903

Commitments at 31 December 2005 were as follows:

	Amount in foreign currency			
Currency	**Short-term**		**Long-term**	
	Purchase	**Sale**	**Purchase**	**Sale**
US Dollars	49,055,081	59,613,204	17,706,328	5,283,077
Pounds Sterling	8,675,556	486,138	4,001,112	–
Swiss Francs	15,669,473	–	–	–
Chilean Peso	840,000	3,631,464,341	–	–
Swedish Krona	184,250	–	–	–
Moroccan Dirham	–	3,746,148	–	–
Mexican Peso	–	14,893,713	–	–

At 31 December 2006 and 2005 exchange rate hedges are valued as follows:

	2006				2005			
Currency	Short term		Long term		Short term		Long term	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Exchange rate insurance								
Cash flow hedges	2,531	1,926	441	153	507	(1,952)	(283)	(1,569)
Fair value hedges	1,159	349	–	–	278	(160)	–	–
	3,690	**2,275**	**441**	**153**	**785**	**(2,112)**	**(283)**	**(1,569)**

Thousands of Euros

b. Options on own shares

In 2005 the board of directors of the Parent Company approved an options programme for ordinary shares of the Parent Company in order to motivate and retain management and transform the creation of shareholder value in the medium term into a common goal of both the shareholders and management.

The 2005 Options Programme was approved by the directors at the meeting of the Parent Company's board on 12 May 2005. In accordance with article 130 and the fourth additional provision of the Spanish Companies' Act, the programme was also approved by the shareholders at their Annual General Meeting held on 27 June 2005.

The main conditions of the options programme are as follows:

- The options granted entitle the holder to acquire ordinary shares of the Parent Company, provided that certain conditions are met. Each option represents one share.
- The 2005 Options Programme is directed to 93 directors and other Group employees, including senior management.
- 2,281,000 options were granted, equivalent to 2,281,000 ordinary shares with a par value of Euros 0.20 each and representing 1.56% of share capital.
- The exercise price of options granted is Euros 16.83, which is equivalent to the average quotation price of shares during July, August and September 2005.
- Options granted may be executed from 1 April 2008 to 30 June 2009.
- Options are exercised through the acquisition of shares.
- The board of directors has arranged an equity swap contract with a financial entity in order to hedge the options granted.

Details of the remuneration plans based on the value of the share and hedges at 31 December 2006 and movement during the year are as follows:

	Number of options					Price for the year euros	Expiry
	Balance at 31.12.05	**Granted**	**Exercised**	**Extinguished**	**Balance at 31.12.06**		
2002 Progr., tranche 1	688,725	-	(585,249)	(2,816)	100,660	7.27	31-03-07
2002 Progr., tranche 2	596,872	-	(464,581)	(69)	132,222	6.59	31-03-07
2005 Options Programme	2,281,000	-	-	(33,000)	2,248,000	16.83	from 01.04.08 to 30.06.09
Total options in force	**3,566,597**	**-**	**(1,049,830)**	**(35,885)**	**2,480,882**		

	Coverage		
	Equity Swap	**Redeemable shares**	**Unit net book value**
2002 Progr., tranche 1	–	181,570	7.27
2002 Progr., tranche 2	–	174,870	6.59
2005 Options Programme	2,281,000	-	16.83
Total	**2,281,000**	**356,440**	

Details of share options granted and hedges existing at 31 December 2005 and movement during the year the ended were as follows:

	Number of options					Price for the year euros	Expiry
	Balance at 31.12.04	**Granted**	**Exercised**	**Extinguished**	**Balance at 31.12.05**		
2000 Programme	3,407,487	–	(3,118,346)	(289,141)	–	11.49	–
2002 Progr., tranche 1	1,472,398	–	(782,470)	(1,203)	688,725	7.27	2% 31.03.06 3% 30.06.06 95% 31.03.07
2002 Progr., tranche 2	1,272,569	–	(673,897)	(1,800)	596,872	6.59	3% 31.03.06 97% 31.03.07
2003 Options Programme	42,300	–	(42,300)	–	–	8.40	
2005 Options Programme	–	2,281,000	–	–	2,281,000	16.83	from 01.04.08 to 30.06.09
Total options in force	**6,194,754**	**2,281,000**	**(4,617,013)**	**(292,144)**	**3,566,597**		

	Coverage		
	Equity Swap	**Redeemable shares**	**Unit net book value**
2002 Progr., tranche 1	–	766,819	7.27
2002 Progr., tranche 2	–	639,451	6.59
2005 Options Programme	2,281,000	-	16.83
Total	**2,281,000**	**1,406,270**	

In accordance with IFRS 2, the Group recognised only those options granted subsequent to November 2002 as personnel expenses.

At 31 December 2006 Euros 3,065 thousand have been charged to personnel expenses for the options granted under the 2002 and 2005 Options Programmes (Euros 1,271 thousand in 2005) (note 30).

38. Remuneration of Directors

a. Remuneration of the directors

In accordance with the articles of incorporation, remuneration comprises a fixed sum, the maximum amount of which is determined by the shareholders at their general meeting, and a share in the profits of the Parent Company. It may also consist of shares or share options, subsequent to approval by the shareholders.

In 2005 the board of directors prepared a proposal, with the collaboration of the external consultancy firm of independent experts Spencer Stuart, which was submitted to the shareholders at their ordinary general meeting that year. The proposal established the global fixed amount of remuneration for the board of directors at a maximum of Euros 600,000 for 2005, 2006 and 2007 and limited shares in profit, which were statutorily established at 1% of consolidated net profit, to a maximum of 1.4 times the amount of the fixed sum, resulting in a total of Euros 1,440,000 for the board of directors as a whole. This amount will foreseeably be maintained in 2006, as the profit for this year will require the application of the aforementioned limit. The same amount of Euros 1,440,000 was produced in 2005, when the aforementioned limit was also applied.

The criteria for distributing the abovementioned global amount between the members of the board of directors are determined by the board of directors itself, in accordance with the articles of incorporation.

The amounts for 2006 and 2005 are as follows:

	2006	2005
Fixed sum	600,000	600,000
Share of profit	840,000	840,000
Total remuneration of directors	1,440,000	1,440,000

The total remuneration of the directors indicated above represents 0.88% of consolidated net operating profit and 0.89% of consolidated profit before income tax for 2006, according to the accompanying consolidated annual accounts prepared by the board of directors (1% in both cases in 2005).

In accordance with the agreements reached by the shareholders at their ordinary general meeting in 2005, 50% of the gross amount of the share in profit will be distributed as Parent Company shares, the number of which will be determined in line with their market value when the dividend is distributed, and the remaining 50%, less the withholding corresponding to the entire amount of the share in profit, will be paid in cash. Application of the above in 2005 entailed the distribution of 2,333 Parent Company shares to each director, with a value equivalent to 77% of the net amount of the share in profit.

During 2006 and 2005 no options on Parent Company shares were granted to the members of the board of directors in light of their position as directors.

In 2006 the members of the board of directors did not exercise, as directors, any options on Parent Company shares. In 2005, once the established three-year exclusion period had elapsed, 258,000 Parent Company share options were exercised, representing 100% of total shares granted to the directors as part of the 2002 Options Plan (with 108 beneficiaries), as agreed by the shareholders at their ordinary general meeting that year. The strike price of these options amounted to Euros 7.27 (their market value when they were granted).

At 2006 and 2005 year ends the members of the board of directors did not hold, as directors, any Parent Company share options.

In 2006 and 2005 the members of the board of directors did not receive any benefits or remuneration other than the aforementioned. Neither the Parent Company nor any of the Group companies has any pension commitments towards the directors, nor have they extended any loans or advances.

b. Remuneration of senior management

The remuneration of the Parent Company's senior management is determined on an individual basis by the board of directors, subsequent to receiving a report from the Appointments and Remuneration Committee.

In 2005 the aforementioned Commission proposed to the board of directors that the labour and remuneration framework for senior management should be reviewed, with the collaboration of the external firm of independent experts, Spencer Stuart. The board of directors approved the proposal. As proposed by the Appointments and Remuneration Committee, the board of directors agreed to the new remuneration of senior management for a three-year period, from 2005 to 2007 inclusive, and to certain conditions regarding their professional relationship referred to later in this note. This remuneration comprises similar components to the previous remuneration system, some of which are annual while others relate to more than one year, as detailed below. The following criteria were used to determine the terms and amounts of each component: variable remuneration should represent a substantial portion of the total remuneration; medium-term remuneration should be significant; and remuneration referenced to stock market value should be significant, although not excessive.

Annual remuneration comprises a fixed sum paid in cash; a variable remuneration component, also in cash, depending on the level of achievement of established annual targets and the evaluation of management performance; and remuneration in kind. Consequently, the criteria of the board of directors dictate that the fixed remuneration should remain invariable for the three years indicated (2005, 2006 and 2007), unless specific circumstances should arise due to which a review becomes advisable. The amounts for 2006 and 2005 are therefore as follows:

	2006	2005
Fixed remuneration	3,286,316(1)	2,784,295
Variable remuneration	2,725,219(2)	1,541,509
Remuneration in kind	155,436	114,866

(1) The fixed remuneration only varies in 2006 because there were nine members of senior management throughout the entire year, whereas in 2005 senior management comprised six directors for a seven-month period and nine for the remaining five months.

(2) Besides the effect described in the above note, the valuation of the acquisitions of Azertia and Soluziona has particularly affected the increase in variable remuneration in 2006.

Medium-term remuneration is entirely variable and is dependent on senior management remaining within the Parent Company until the end of the period to which it relates. It can comprise a cash incentive linked to the continuous achievement of targets and the evaluation of management performance for that period, and/or the granting of share options.

Medium-term remuneration applicable for 2006 is the same as that established for 2005 for the aforementioned three-year period from 2005 to 2007 inclusive, and comprises the following:

- Variable cash remuneration, accrued in line with the achievement of targets established for the 2005 to 2007 period, for a maximum overall amount of 1.65 times the annual fixed remuneration, which is effectively accrued and will be paid, where applicable, after the 2007 close. In 2006 and 2005 the Parent Company recorded a provision for a third of the maximum amount, that is, Euros 1,804,369.
- 890,000 options on the same number of shares, granted in June 2005 as part of the 2005 Options Plan (93 beneficiaries), with a strike price of Euros 16.83 (market value of each share when granted) and which may be exercised between April 2008 and June 2009.

During 2006 no options on Parent Company shares were granted to senior management. In 2006 and 2005 members of senior management exercised all the share options granted to them as part of the 2002 Options Plan (108 beneficiaries), exercising 423,500 options in 2006 and 365,000 in 2005, on the same number of Parent Company shares respectively. The average strike price of these options amounted to Euros 6.93 (market value of each share when granted).

In 2006 and 2005 the members of senior management did not receive any benefits or remuneration other than the aforementioned. Neither the Parent Company nor any of the Group companies has any pension commitments towards senior management, nor have they extended any loans or advances.

Each member of senior management has signed a contract with the Parent Company, regulating the conditions pertinent to their professional relationship, including indemnities applicable in the event of termination of the aforementioned professional relationship, as reported in detail by the chairman of the Appointments and Remuneration Commission during the ordinary shareholders meeting in 2006. In virtue of the aforementioned contracts, should their professional relationship with the Parent Company be terminated, and except in the case of voluntary departure or when there is justifiable cause for discontinuing employment, members of senior management are entitled to an indemnity equivalent to that established in article 56 of the Workers' Statute, namely 45 days' annual remuneration for each year of service in the Parent Company, with a maximum of 3.5 yearly payments. In the case of the Chairman and the Managing Director, a minimum of three yearly payments is established, while specific conditions are applicable for the eldest member of senior management (Executive Vice-chairman).

As advised by the chairman of the Appointments and Remuneration Commission during the ordinary shareholders meeting held in 2006, the Chairman, the Executive Vice-chairman, the Managing Director and the three General Managers of Operations have also signed non-competition agreements, effective for two years as of the termination of their professional relationship with the Parent Company, with compensation of between 0.5 and 0.75 times their annual remuneration for each year of non-competition.

c. Remuneration of the executive directors deriving from their professional relationship

The remuneration criteria and items for the executive directors in virtue of their professional relationship with the Parent Company are the same as those described in section b) above, referring to senior management as a whole.

Consequently, remuneration due to senior management who are also members of the board of directors (executive directors) is accrued through their professional relationship with the Parent Company and, as such, is independent from remuneration received in light of their position as directors, as established in the articles of incorporation.

The amounts mentioned in section 2 above relating to the three executive directors are as follows:

	2006	2005
Fixed remuneration	1,660,405	1,660,405
Annual variable remuneration	1,746,203 (1)	1,017,202
Remuneration in kind	66,148	66,684

(1) 2006 variable remuneration increase has been strongly related to the valuation of Azertia and Soluziona acquisitions.

The total annual remuneration of the executive directors therefore represents 2.12% of consolidated net operating profit and 2.14% of consolidated profit before income tax for 2006, according to the accompanying consolidated annual accounts (1.93% and 1.89%, respectively, in 2005).

Medium-term remuneration described in section b) above is as follows:

- Euros 1,141,869 of the provision recorded in both 2006 and 2005 in respect of variable cash remuneration relates to the executive directors.
- 480,000 of the share options granted to senior management as part of the 2005 Options Plan relate to executive directors.

Of the share options exercised, as described in section 2 above, in 2006 and 2005 the executive directors exercised 237,500 options on the same number of Parent Company shares, granted as part of the 2002 Options Plan.

In 2006 and 2005 the executive directors, as senior management, did not receive any benefits or remuneration other than the aforementioned. Neither the Parent Company nor any of the Group companies has any pension commitments towards the executive directors, nor have they extended any loans or advances.

In conjunction with these annual accounts, the Company prepares and publishes the Yearly Corporate Governance Report, which provides in-depth information on the policies and criteria followed for remuneration of directors and senior management and individualised information on each area of the Company statutory remuneration accrued by each director and remuneration of the senior management team, detailed by each area.

39. Information Provided by the Members of the Board of Directors as Required by amended Article 127 (4th) of the Spanish Companies Act

As required by amended section 4 of Article 127 of the Spanish Companies Act, the members of the board of directors have informed the Parent Company of shares or positions held in other companies. Details are presented in Appendix II to the accompanying annual accounts.

40. R&D&Innovation Activities

A significant part of activities carried out by the Indra Group give rise to R&D&innovation expenses, which are taken to the consolidated income statement when they are incurred (see note 4.b).

The overall expense for R&D&innovation projects carried out in 2006 and 2005, including capitalised projects (see note 6), amounts to Euros 99,136 thousand and Euros 85,610 thousand, respectively, which equals 7% and 7.2%, respectively, of the Group's total sales during those years. R&D&innovation expenses incurred by the Parent Company during 2006 and 2005 account for more than 80% of the total expenses of this nature incurred by the Group.

41. Environmental Issues

The Group's activities have not changed significantly in comparison with prior years and therefore the environmental impact continues to be low. Consequently, the directors consider that no significant contingencies exist in relation to protection or improvement of the environment and therefore have made no related provision for liabilities and charges at 31 December 2006 or 2005.

Similarly, as in the prior year no significant assets have been allocated to protect and improve the environment, and no material expenses of this nature have been incurred during the year. The Group has neither requested nor received any environmental grants during the years ended 31 December 2006 and 2005.

Notwithstanding the above, one of the foundations of Indra's Corporate Governance is the commitment to protect the environment during the course of its activities. This has been illustrated through the adoption at Indra's work centres of an environmental management system based on the UNE-EN ISO 14001 quality standard. In addition to the UNE-EN ISO 14001 certification awarded to the work centres in Arroyo de la Vega, San Fernando de Henares and Torrejón de Ardoz, in December 2006 the certification was also issued to the Triángulo building located in Alcobendas (Madrid).

42. Remuneration of Auditors

Remuneration of KPMG Auditores, S.L. and other related companies, as defined in the fourteenth additional provision of legislation governing the reform of the financial system, has been:

	Euros		
	2006	**2005**	
Annual Accounts audit (*)	593,477	365,271	
Financial statements audit as at 31 August 2006		140,000	–
Due Diligence services and other audit related services	590,000	124,374	
	1,323,477	**489,645**	

(*) In 2006 includes the Azertia group and IP Sistemas group audits

The amounts detailed in the preceding paragraphs include the total fees for the 2006 and 2005 audits of the Group companies and other services, irrespective of the date of invoice.

43. Transactions with Shareholders and Directors

In accordance with the board of directors regulations, transactions with significant shareholders or with board members must be authorised by the board of directors on the basis of a report from the Designation and Remuneration Committee evaluating whether the proposed transaction complies with the principle of equal treatment of shareholders and whether it is carried out in market conditions. Ordinary transactions carried out in market conditions must only meet general operations authorisation guidelines.

During the years ended 31 December 2006 and 2005, commercial, financial and professional services transactions have been carried out with the shareholder Caja Madrid and related companies, as well as with four companies related to the board members Mr. Ramón y Cajal, Mr. Moya-Angeler and Mr. Ureta.

These transactions have been authorised in accordance with the above-mentioned criteria and were carried out in the normal course of the businesses and in market conditions. The transactions do not represent, either individually or overall, a significant amount of the Company's net sales or balance sheet at 31 December 2006 and 2005.

Details of transactions with shareholders and board members during the years ended 31 December 2006 and 2005 are as follows. These details have been prepared on the basis of the applicable provisions of the law governing the stock market, International Accounting Standards and the most recent recommendations and policies applied by the Parent Company in relation to corporate governance.

	2006		
Nature of the transaction	**Shareholders**	**Board members**	**Total 31.12.2006**
Sale of goods and services	8,472(*)	–	8,472
Purchase of goods and services	–	506	506
Interest received	22	–	22
Expenses for financial services	563	92	655
Expenses for professional services	–	155	155
	9,057	**753**	**9,810**

Thousands of Euros

(*) Of this amount, Euros 4,043 thousand relates to Inversis, in which Caja Madrid and Indra hold interests of 38.5% and 12.8%, respectively, at 31 December 2006.

	2005		
Nature of the transaction	**Shareholders**	**Board members**	**Total 31.12.2005**
Sale of goods and services	7,016(*)	–	7,016
Purchase of goods and services	–	212	212
Interest received	4	–	4
Expenses for financial services	528	48	576
Expenses for professional services	–	19	19
Share capital contributions	6,975(*)	–	6,975
	14,523	**279**	**14,802**

Thousands of Euros

(*) Of these amounts, Euros 4,413 thousand and Euros 6,975 thousand, respectively, relate to Inversis, in which Caja Madrid and Indra held interests of 40.5% and 13,4%, respectively, at 31 December 2005.

a. Transactions with shareholders

All transactions with shareholders, except those indicated in the tables, relate to operations carried out with the shareholder Caja Madrid.

Sale of goods and services reflects projects and services rendered on behalf of Caja Madrid.

Interest received reflects interest paid by Caja Madrid on short-term deposits placed in that entity.

Expenses for financial services include expenses for financial brokerage services, guarantee management expenses and interest charged on credit facility draw-downs. In 2006 and 2005 the main financial contracts signed with Caja Madrid are as follows:

- Credit facilities with annual maturity amounting to Euros 50,000 thousand in 2006 and Euros 12,000 thousand in 2005, which accrue interest at a rate referenced to monthly Euribor. The average balance drawn down in 2006 totals Euros 1,872 thousand (Euros 407 thousand in 2005).
- Guarantee facility with annual maturity amounting to Euros 76,800 thousand in 2006 and Euros 23,800 thousand in 2005.
- Payables discounting programme amounting to Euros 23,350 thousand with annual maturity. There have been no variations in this facility during these two years.

In 2006 the R+D+Innovation project known as ITECBAN was signed. This project, developed by Indra, Caja Madrid and a further seven entities, is financed by the Centre for Industrial Technological Development (CDTI, governed by the Ministry of Industry, Tourism and Commerce), with no economic value between the parties.

In addition to the aforementioned transactions, dividends received by the Caja Madrid Group amount to Euros 6,041 thousand and Euros 8,065 thousand in 2006 and 2005, respectively.

b. Transactions with directors

Purchase of goods and services includes:

- The rental of a building located in Torrejón de Ardoz, with a surface area of 4,226 m2, from Inmoan, S.A., a company of which Mr. Moya-Angeler is the sole shareholder. The lease contract was signed in 1999 for a period of eight years, expiring in December 2007 and extendible until 2013. The amounts settled in 2006 and 2005 totalled Euros 189 thousand and Euros 199 thousand, respectively. The terms of the lease contract were negotiated with Mr. Moya-Angeler prior to his appointment as a director of Indra. Subsequently, as requested by Mr. Moya-Angeler, the board of directors expressly authorised this transaction, on the basis of a favourable report received from the Appointments and Remuneration Commission.
- The rental of a building located in Alcobendas, with a surface area of 4,084.12 m2, from Edificios Alcobendas, S.A., a company in which Mr. Ramón y Cajal holds a 10% interest. The lease contract was signed at the end of 2005, initially until May 2011 and extendible until 2015. The amount settled in 2006 totals Euros 317 thousand.
- Consultancy services rendered by Presenzia.Net, a company in which Mr. Moya-Angeler holds a 49% interest and of which he is Chairman of the Board of Directors. The amount settled in 2005 totalled Euros 13 thousand.

In both years, expenses for financial services reflect financial brokerage fees paid to Renta 4 Sociedad de Valores y Bolsa, S.A., a company in which Mr. Ureta holds a 60.4% interest and of which he is Chairman and Managing Director.

In both years, expenses for professional services reflect legal advisory fees paid to the lawyers practice Ramón y Cajal Abogados, a company of which Mr. Ramón y Cajal is Chairman and in which he holds a minority interest, exercising no control.

Details of remuneration of the members of the board of directors are provided in note 38.

c. Transactions with senior management

During 2006 and 2005 there have been no transactions with senior management or related parties.

Details of remuneration of senior management are provided in note 38.

44. Subsequent Events

a) On 12 January 2007 the share capital increase approved by the shareholders at their Annual General Meeting on 20 December 2006 was raised in a public deed.

The share capital increase, which excluded preferential subscription rights, comprised the issue and in circulation of 18,068,171 new ordinary class A shares of Euros 0.20 par value each, with a share premium of Euros 15.30 per share issued.

The new shares were admitted for trading on 29 January 2007.

The share capital increase was fully subscribed and paid by Unión Fenosa, S.A. through the contribution of the information technology consulting business Soluziona, which comprises the companies Soluziona Consultoría y Tecnologías de la Información, S.L.U., Soluziona Seguridad, S.A.U. and Soluziona Internacional Servicios Profesionales, S.L.U.

Ordinary income and net profit on continuing operations generated by these companies during 2006 amounts to Euros 227,541 thousand and Euros 821 thousand, respectively. The contribution to income and profit provided by Soluziona Consultoría y Tecnologías de la Información, S.L.U. relates to only two months (November and December 2006), as Soluziona, S.A. transferred the consultancy and technology line of business on 31 October 2006.

Aggregate details of the cost of this business combination and the fair value of the net assets acquired are as follows:

Cost of the business combination	
– Fair value of issued shares (*)	328,660
– Expenses inherent to the acquisition	4,422
	333,082
Fair value of the net assets acquired	151,178
Goodwill	181,904

Thousands of Euros

(*)Value calculated on the basis of the stock market quotation of Indra Sistemas, S.A. at the date the deed was executed.

The amounts of assets, liabilities and contingent liabilities at the date of acquisition were as follows:

Assets	**Fair**
Goodwill on consolidation	11,798
Intangible assets	12,974
Property, plant and equipment	15,004
Other financial assets	2,268
Deferred tax assets	504
Inventories	2,541
Trade and other receivables	254,394
Other assets	14,593
	314,076
Liabilities	
Deferred income	(12)
Provisions for liabilities and charges	(752)
Other long-term payables	(1,335)
Deferred tax liabilities	(936)
Income tax liabilities	(1,861)
Trade and other payables	(105,979)
Other liabilities	(39,645)
	(150,520)
Total net assets	163,556
Minority interests	(14,091)
Cost of the business combination	(333,082)
Cash and cash equivalents	1,713
Goodwill	**(181,904)**

Thousands of Euros

The fair value of all the assets and liabilities related to this business combination is equal to the carrying amount in Soluziona Consultoría y Tecnologías de la Información, S.L.U., Soluziona Seguridad, S.A.U. and Soluziona Internacional Servicios Profesionales, S.L.U. books at the date of the acquisition.

b) On 28 February 2007 the Parent Company acquired the remaining 50% interest in BMB Gestión Documental, S.L. from the founding shareholders of that company for Euros 32 million. Consequently, this company, which provides business process outsourcing services in the financial sector, is now a fully-owned subsidiary of the Parent Company.

Appendix I

Details of Group companies at 31 December 2006

	Registered offices	Activity
1.- Parent company		
Indra Sistemas, S.A.	Avenida de Bruselas, 35 Alcobendas (Madrid)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
2.- Subsidiaries		
Indra Emac, S.A.	Calle Mar Egeo, 4 Pol.Ind.1 San Fernando de Henares (Madrid)	Maintenance and engineering of systems for use in air defence and other related areas.
Indra Espacio, S.A.	Calle Mar Egeo, 4 Pol.Ind.1 San Fernando de Henares (Madrid)	Design, development, integration and maintenance of satellite control and monitoring systems, satellite navigation systems, satellite telecommunication networks, image treatment and remote detection.
Indra Sistemas de Seguridad, S.A.	Calle Tanger, 120. Barcelona	Design, development, integration and maintenance of surveillance equipment and systems for installation security.
Indra Sistemas de Comunicaciones Seguras, S.L.	Avenida de Bruselas, 35 Alcobendas (Madrid)	Research, engineering, design, manufacture, development, marketing, installation, maintenance and repair of data communication security instruments, devices and systems and encoding, encryption, ground signal and command and control centre systems.
Inmize Capital, S.L.	Avenida de Bruselas, 35 Alcobendas (Madrid)	Management, engineering, commercialisation and sale of defence systems.
Inmize Sistemas, S.L.	Avenida de Bruselas, 35 Alcobendas (Madrid)	Management, engineering, commercialisation and sale of defence systems.
Indra Centros de Desarrollo, S.L.	Avenida de Bruselas, 35 Alcobendas (Madrid)	Design, construction and testing for IT development projects.
Itec Air Traffic Management, S.L.	Carretera de Loeches, 9 Torrejón Ardoz (Madrid)	Design, development, integration and maintenance of advanced systems for air traffic control.
Europraxis Atlante, S.L.	Calle Carabela la Niña, 12 Barcelona	Professional services consisting of business, technological and solutions consulting.
Tourism & Leisure Advisory Service, S.L.	Calle Carabela la Niña, 12 Barcelona	Professional services consisting of business, technological and solutions consulting.
Europraxis Consulting, Ltd.	London (UK)	Professional services consisting of business, technological and solutions consulting.
Europraxis Consulting Brasil, Ltda.	Sao Paulo (Brazil)	Professional services consisting of business, technological and solutions consulting.
Europraxis Consulting Argentina, S.A.	Buenos Aires (Argentina)	Professional services consisting of business, technological and solutions consulting.
Compraxis Prestação de Servicios de Consultoria Ltda.	Lisbon (Portugal)	Professional services consisting of business, technological and solutions consulting.
Europraxis Consulting, S.r.l.	Milan (Italy)	Professional services consisting of business, technological and solutions consulting.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

	Registered offices	Activity
Advanced Logistics Group, S.A.	Calle Compte d'Urgell 240 Barcelona	Preparation and performance of all types of studies, technical projects and reports concerning transport engineering, consulting and logistics.
Indra SI, S.A.	Buenos Aires (Argentina)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
Indra Sistemas Chile, S.A.	Santiago de Chile (Chile)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
Indra Beijing Information Technology Systems	Beijing (China)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
Indra Systems, Inc.	Orlando (USA)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
Indra Brasil, Ltda.	Sao Paulo (Brazil)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
Indra Sistemas Portugal, S.A.	Lisbon (Portugal)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
Indra Italia, S.r.l.	Roma (Italy)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
Indra Sistemas México S.A. de C.V.	México D.F. (Mexico)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
Indra Sistemas Magreb S.A.R.L.	Rabat (Morocco)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
Indra France SAS	Antony (France)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
Indra Sistemas Polska Sp.Zo.o.	Warsaw (Poland)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
Internet Protocol Sistemas Net, S.A	Vía Dos Castillas, 33 Pozuelo de Alarcón (Madrid)	Research, development, production, installation and marketing of products, systems and applications for telcommunications, IT and internet and security networks.
Safo Sistemas, S.L.	Vía Dos Castillas, 33 Pozuelo de Alarcón (Madrid)	Distribution, sale, manufacture and installation of IT, software, hadware, telematic and audiovisual systems, as well as related training and advisory services.

	Registered offices	Activity
Metradis, S.L.	Vía Dos Castillas 33, Pozuelo de Alarcón (Madrid)	Distribution, sale, manufacture and installation of software and hadware systems, as well as related training and advisory services.
Azertia Tecnologías de la Información S.A.	Avenida Ribera de Axpe, 11 D 1-2 Erandio (Vizcaya)	Design, development, production, implementation, integration, operation and maintenance of systems, solutions and services based on information.
Azertia Servicios Documentales S.A.	Calle José Abascal, 4 Madrid	Design, analysis, programming, implementation and operation of systems, related advisory and training and any other type of intelectual and marketing services in the field of information technology.
Azertia Gestión de Centros S.A.	Avenida Ribera de Axpe, 11 D 1-2 Erandio (Vizcaya)	Management of back office processes (BPO) for the mass personalisation of documents for any type of entity.
Seintex Consultores S.A. (Venezuela)	Caracas (Venezuela)	Design and development of information systems, conceptualisation and preparation of implementation plans and the design and operation of judicial and statistical databases.
Azertia Tecnología de la Información México S.A. de C.V.	México, D.F. (Mexico)	Design, development, production, implementation, integration, operation and maintenance of systems, solutions and services based on information, electronic and communications technology, as well as related advisory and training services.
Azertia Tecnologías de la Información USA Inc.	New York (USA)	Design, development, production, implementation, integration, operation and maintenance of systems, solutions and services based on information, electronic and communications technology, as well as related advisory and training services.
Azertia Tecnología de la Información Colombia S.A.	Bogota (Colombia)	Design, development, production, implementation, integration, operation and maintenance of systems, solutions and services based on information, electronic and communications technology, as well as related advisory and training services.
Azertia Tecnología de la Información Venezuela S.A.	Caracas (Venezuela)	Design, development, production, implementation, integration, operation and maintenance of systems, solutions and services based on information, electronic and communications technology, as well as related advisory and training services.
Azertia Gestión de Centros Venezuela S.A.	Caracas (Venezuela)	Design, development, production, implementation, integration, operation and maintenance of systems, solutions and services based on information, electronic and communications technology, as well as related advisory and training services.
Euroquality S.A.	Calle María de Molina, 37 Madrid	Professional services consisting of quality, environmental and safety in the workplace consulting.
Dimensión Informática S.L.	Avenida de Cataluña, 11 Valencia	Information technology solutions and services, specialising in systems applied to health and well-being.
Radiología Digital y Comunicaciones	Avenida de Cataluña, 9 Valencia	Information technology solutions and services for the acquisition, treatment, storage and transfer of medical images and their integration into the medical management systems.
Azertia Tecnología de la Información Argentina S.A.	Buenos Aires (Argentina)	Design, development, production, implementation, integration, operation and maintenance of systems, solutions and services based on information, electronic and communications technology, as well as related advisory and training services.
Azertia Portugal Tecnologías de Informaçao S.A.	Algés (Portugal)	Design, development, production, implementation, integration, operation and maintenance of systems, solutions and services based on information, electronic and communications technology, as well as related advisory and training services.

	Registered offices	Activity
Centrisa Brasil, Ltda	Salvador Bahía (Brazil)	Design, development, production, implementation, integration, operation and maintenance of systems, solutions and services based on information, electronic and communications technology, as well as related advisory and training services.
Azertia Tecnología de la Información Puerto Rico S.A.	Guaynabo (Puerto Rico)	Design, development, production, implementation, integration, operation and maintenance of systems, solutions and services based on information, electronic and communications technology, as well as related advisory and training services.
Knowment, Agupación de Interes Económico (AIE)	Avenida de Cataluña, 11 Valencia	Procurement, intermediation, coordination and implementation of information technology-based projects (IT, electronics and comunications) and commercial intermediation in the supply of equipment to developming countries.
Administradora de Archivos S.A.	Avenida de Cataluña, 9 Valencia	Integrated documentary consultation and file management services, digitalisation of documents, management and safe-keeping of all types of files (paper, magnetic, optic, etc.), certified and confidential destruction of files of any type and professional documentation services.
Jood Consulting S.L.	Avenida de Cataluña, 9 Valencia	Marketing of IT services in Arab countries.
3.- Jointly-controlled companies		
BMB Gestión Documental, S.L.	Calle Alcalá, 261-265 Madrid	Management of back-office processes (BPO) for financial entities.
BMB Gestión Documental Canarias, S.L.	Calle Tomás Miller, 47-49, Las Palmas de G. Canaria	Management of back-office processes (BPO) for financial entities.
Formaliza Servicios de Formalización y Gestión, S.L.	Calle Alcalá, 261-265 Madrid	Management of back-office processes (BPO) for financial entities.
Sociedad de Procesos y Formalización 2004, S.L.	Calle Alcalá, 261-265 Madrid	Management of back-office processes (BPO) for financial entities.
CDS Corporación de Servicios Externos, S.L.	Calle Alcalá, 261-265 Madrid	Management of back-office processes (BPO) for financial entities.
Assesors Registrals, S.L.	Calle Bartomeu Abat, 16 Barcelona	Management of back-office processes (BPO) for financial entities.
Trias Bertrán 4, S.L.	Calle Alcalá, 261-265 Madrid	Lease of the office premises located in Plaza Carlos Trias Beltrán, 4, Madrid.
GIPSA	Calle Alcalá, 261-265 Madrid	Management of back-office processes (BPO) for financial entities.
I3 Televisión, S.L.	Avenida Isla Graciosa, 13 Madrid	Design, development, manufacture, supply, assembly, repair, maintenance, installation and commercialisation of IT products, solutions, applications and systems for the audiovisual industry.
Alliance Ground Survillance Industries GmbH	Germany	Development of a reconnaissance, surveillance, command and control system for NATO.
Ceicom Europe, S.L.	Calle Rodríguez Marín, 92 Madrid	Consultancy and IT services, development of IT solutions, development and marketing of technological products, Web services, operation of IT solutions for third parties and the import and export of any of these products and services. Establishment of marketing networks and any type of technological developments and subcontracting.

	Registered offices	Activity
Computación Ceicom, S.A.	Buenos Aires (Argentina)	Data processing, consultancy and technical assistance in systems analysis, development and introduction of programmes for computer equipment.
UTE Indra EWS/STN Atlas Leopard 2	Calle Joaquín Rodrigo, 11 Aranjuez (Madrid)	Development, supply, installation, integration and maintenance of the Leopard 2 tank combat system.
UTE Indra Dimetronic	Calle Miguel Angel, 23 Madrid	Project preparation, supply, installation and maintenance of the traffic control system and integration of systems of the Zaragoza control centre for the Madrid-Puigverd section of the Madrid-Zaragoza-Barcelona high-speed train line.
UTE Manteniment Rondes	Avenida de Bruselas, 35 Alcobendas (Madrid)	Maintenance of the Llobegrat-Morrot node.
UTE Zaindu Hiru	Poligono Industrial Torrelarragoiti Zamudio (Vizcaya)	Maintenance and operation of the high capacity network (Metropolitan area - Area 4).
UTE Saih Sur	Avenida del General Perón, 36 Madrid	Maintenance of the Cadiz-Málaga-Granada-Almería South automated hydraulogical information system (SAIH) network.
UTE Jocs del Mediterrani	Avenida de Bruselas, 35 Alcobendas (Madrid)	Contract for the operation and development of lotteries for the Catalonia Regional Government, organised and managed by the autonomous government's games and lotteries entity,
4.- Associates		
Saes Capital, S.A.	Paseo de la Castellana, 55 Madrid	Through associated companies, the design, development, production, integration, maintenance and operation of electronic, IT and communications systems mainly related to naval systems and submarine acoustics.
Eurofighter Simulation System GmbH	Munich (Germany)	Development and production of flight simulators for the Eurofighter EF-2000.
Euromids SAS	Paris (France)	Development, manufacture and commercialisation of tactical communications systems.
Indra Sistemas Tecnocom, S.A de C.V.	México D.F. (Mexico)	Design, development, production, integration and maintenance of systems, solutions and services based on information, electronic and communications technology.
MRCM GmbH	Ulm (Danube) (Germany)	Development of solutions for electronic warfare systems.

This Appendix forms an integral part of notes 1 and 17 to the consolidated annual accounts, in conjunction with which it should be read.

Details of Group companies at 31 December 2006

	% ownership					Contributions of Group companies to profit for the year						
							Consolidation adjustments					
Company	Direct	Indirect	Total	Equity	Total operating income	Individ. profit/ (loss) after tax	IFRS adjustments	Provision for investments	Dividends	Other consol. adjustments	Minority interest	Profit/ (loss) attributable to the Group
1.- Parent company												
Indra Sistemas, S.A. (Parent Company)				274,151	1,050,688	95,184	207	4,114	(2,679)	273	-	97,099
2.- Subsidiaries												
Indra ATM, S.L.	100%	-	100%	38,376	25,610	2,058	447	-	-	1,889	(607)	3,787
Indra Emac, S.A.	100%	-	100%	3,080	14,139	2,107	-	-	-	-	(77)	2,030
Indra Espacio, S.A.	51%	-	51%	34,838	42,054	5,183	(120)	-	-	70	(2,515)	2,618
Indra Sistemas de Seguridad, S.A.	100%	-	100%	2,335	5,507	395	-	-	-	(109)	-	286
Inmize Capital, S.L.	80%	-	80%	1,583	-	1	2	(9)	-	-	2	(4)
Inmize Sistemas, S.L.	-	50%	40%	3,337	3,006	355	4	-	-	(20)	(200)	139
Indra Centros de Desarrollo, S.L.	100%	-	100%	372	3,466	(107)	-	-	-	(14)	-	(121)
Algoritmos y Sistemas, S.L.	100%	-	100%	322	1,744	111	-	-	-	(290)	-	(179)
Itec Air Traffic Management, S.L.	100%	-	100%	3	-	-	-	-	-	-	-	-
Grupo Europraxis	100%	-	100%	8,056	23,039	614	-	-	-	10	40	664
Indra SI, S.A.	100%	-	100%	1,204	9,442	26	-	-	-	11	-	37
Indra Sistemas Chile, S.A.	100%	-	100%	(520)	14,507	(750)	-	-	-	29	-	(721)
Indra Beijing Information Technology Systems Ltd.	100%	-	100%	157	288	(50)	-	-	-	-	-	(50)
Indra Systems, Inc	100%	-	100%	256	11,980	34	-	-	-	9	-	43
Indra Brasil, Ltda.	99%	1%	100%	(5,751)	10,123	(3,804)	-	-	-	(4)	-	(3,808)
Indra Sistemas Portugal, S.A.	100%	-	100%	3,937	25,800	702	-	-	-	(26)	-	676
Indra Italia, S.r.l.	100%	-	100%	596	-	(7)	2	-	-	-	-	(5)
Indra Sistemas México, S.A. de C.V.	100%	-	100%	66	1,218	57	-	-	-	-	-	57
3.- Jointly-controlled companies												
Grupo BMB	50%	-	50%	6,617	16,253	1,466	89	-	-	65	(7)	1,613
UTE Indra EWS/STN Atlas Leopard 2	60%	-	60%	-	3	-	-	-	-	-	-	-
UTE Indra Dimetronic	82%	-	82%	-	7,327	-	-	-	-	-	-	-
UTE Manteniment Rondes	30%	-	30%	-	2,754	-	-	-	-	-	-	-
UTE Zaindu Hiru	13%	-	13%	-	7,883	-	-	-	-	-	-	-
UTE Saih Sur	35%	-	35%	-	1,319	-	-	-	-	-	-	-
UTE Jocs del Mediterrani	25%	-	25%	-	1,126	-	-	-	-	-	-	-
4.- Associates												
Saes Capital, S.A.	49%	-	49%	1,982	-	-	-	-	-	(275)	-	(275)
Eurofighter Simulation System GmbH	26%	-	26%	2,915	-	-	-	-	-	152	-	152
Euromids SAS	25%	-	25%	424	-	-	-	-	-	51	-	51
Ceicom Europe, S.L.	25%	-	25%	77	-	-	-	-	-	6	-	6
Computación Ceicom, S.A.	25%	-	25%	59	-	-	-	-	-	(35)	-	(35)
Internet Protocol Sistemas Net, S.A.	20%	-	20%	4,604	-	-	-	-	-	4	-	4

	% ownership					Contributions of Group companies to profit for the year						
							Consolidation adjustments					
Company	Direct	Indirect	Total	Equity	Total operating income	Individ. profit/ (loss) after tax	IFRS adjustments	Provision for investments	Dividends	Other consol. adjustments	Minority interest	Profit/ (loss) attributable to the Group
Indra Sistemas Tecnocom, S.A. de C.V.	50%	-	50%	4	-	-	-	-	-	-	-	-
						103,575	631	4,105	(2,679)	1,796	(3,364)	104,064
BMB Group companies:												
BMB Gestión Documental, S.L.	50%	-	50%	12,174	25,229							
BMB Gestión Documental Canarias, S.L.	-	70%	70%	418	1,457							
Formaliza Servicios de Formalización y Gestión, S.L.	-	100%	100%	394	3,254							
Sociedad de Procesos y Formalización 2004, S.L.	-	100%	100%	6	661							
CDS Corporación de Servicios Externos, S.L.	-	67%	67%	1,907	3,332							
Assesors Registrals, S.L.	-	100%	100%	977	2,251							
Trias Bertrán, S.L.	-	40%	40%	24	-							
Europraxis Group companies:												
Europraxis Atlante, S.L.	100%	-	100%	10,466	17,908							
Tourism & Leisure Advisory Services, S.L.	-	70%	70%	43	2,210							
Europraxis Consulting, Ltd. (UK)	-	100%	100%	348	421							
Europraxis Consulting, Ltda. (Brazil)	-	100%	100%	467	1,044							
Europraxis Consulting Argentina, S.A.	1%	99%	100%	809	97							
Compraxis Prestaçao de Servicios de Consultoria Ltda.	-	75%	75%	(280)	1,571							
Europraxis Consulting, S.r.l.	-	100%	100%	120	1,466							

This Appendix forms an integral part of notes 1 and 17 to the consolidated annual accounts, in conjunction with which it should be read.

Details of Group companies at 31 December 2006

Company	% ownership					Contributions of Group companies to profit for the year						
							Consolidation adjustments					
	Direct	Indirect	Total	Equity	Total operating income	Individ. profit/ (loss) after tax	IFRS adjustments	Provision for investments	Dividends	Other consol. adjustments	Minority interest	Profit/ (loss) attributable to the Group
1.- Parent company												
Indra Sistemas, S.A. (Parent Company)				344,552	1,175,368	112,346	(6,607)	4,768	(3,796)	155	-	106,866
2.- Subsidiaries												
Indra Emac, S.A.	100%	-	100%	3,255	15,021	2,282	58	-	-	(58)	-	2,282
Indra Espacio, S.A.	51%	-	51%	39,565	46,578	4,727	(386)	-	-	(144)	(2,064)	2,133
Indra Sistemas de Seguridad, S.A.	100%	-	100%	2,361	8,057	421	-	-	-	(53)	-	368
Indra Sistemas Comunicaciones Seguras, S.L.	-	90%	90%	5,131	2,378	631					(63)	568
Inmize Capital, S.L.	80%	-	80%	1,578	-	(5)	2	-	-	(1)	1	(3)
Inmize Sistemas, S.L.	-	50%	40%	3,917	3,204	581	1,766	-	-	(5)	(1,405)	937
Indra Centros de Desarrollo, S.L.	100%	-	100%	375	10,441	3	-	-	-	4	-	7
Itec Air Traffic Management, S.L.	100%	-	100%	2	-	-	-	-	-	-	-	-
Grupo Europraxis	100%	-	100%	7,291	32,908	(265)	1,226	-	-	(496)	(144)	321
Indra SI, S.A.	100%	-	100%	(193)	7,468	(1,251)	-	-	-	(124)	-	(1,375)
Indra Sistemas Chile, S.A.	100%	-	100%	357	12,416	(45)	-	-	-	21	-	(24)
Indra Beijing Information Technology Systems Ltd.	100%	-	100%	14	237	(134)	-	-	-	-	-	(134)
Indra Systems, Inc	100%	-	100%	234	18,004	5	-	-	-	17	-	22
Indra Brasil, Ltda.	99%	1%	100%	1,375	9,109	(1,930)	-	-	-	(10)	-	(1,940)
Indra Sistemas Portugal, S.A.	100%	-	100%	4,008	24,022	(1,182)	596	-	-	(597)	-	(1,183)
Indra Italia, S.r.l.	100%	-	100%	596	-	(1)	1	-	-	-	-	-
Indra Sistemas México, S.A. de C.V.	100%	-	100%	355	4,972	309	-	-	-	4	-	313
Grupo Internet Protocol Sistemas Net, S.A.	90%	-	90%	5,596	8,344	746	142	-	-	(142)	(73)	673
Indra Magreb	100%	-	100%	181	-	(89)	-	-	-	-	-	(89)
Indra France	100%	-	100%	270	6	(231)	-	-	-	(202)	-	(433)
Indra Poland	100%	-	100%	11	-	(2)	-	-	-	-	-	(2)
Grupo Azertia	100%	-	100%	59,241	76,008	1,709	253	790	-	(22)	(16)	2,714
3.- Jointly-controlled companies												
Grupo BMB	50%	-	50%	15,233	49,543	1,811	652	-	-	(659)	(57)	1,747
I-3 Televisión, S.L.	50%	-	50%	233	3,286	(34)	-	-	-	(4)	-	(38)
Alliance Ground Survillance Industries, GmbH	16.66%	-	17%	438	-	-	-	-	-	-	-	-
Ceicom Europe, S.L.	50%	-	50%	157	-	20	-	-	-	-	-	20
Computación Ceicom, S.A.	50%	-	50%	578	-	131	-	-	-	-	-	131
TCAR Industries GmbH	16%	-	16%	60	-	-	-	-	-	-	-	-
UTE Indra EWS/STN Atlas Leopard	60%	-	60%	-	15	-	-	-	-	-	-	-
UTE Indra Dimetronic	82%	-	82%	-	1,004	-	-	-	-	-	-	-
UTE Manteniment Rondes	30%	-	30%	-	4,174	-	-	-	-	-	-	-
UTE Zaindu Hiru	13%	-	13%	-	50	-	-	-	-	-	-	-

	% ownership					Contributions of Group companies to profit for the year						
							Consolidation adjustments					
Company	Direct	Indirect	Total	Equity	Total operating income	Individ. profit/ (loss) after tax	IFRS adjustments	Provision for investments	Dividends	Other consol. adjustments	Minority interest	Profit/ (loss) attributable to the Group
UTE Saih Sur	35%	-	35%	-	1,385	-	-	-	-	-	-	-
UTE Jocs del Mediterrani	25%	-	25%	-	6,659	-	-	-	-	-	-	-
4.- Associates												
Saes Capital, S.A.	49%	-	49%	2,198	-	106	-	-	-	-	-	106
Eurofighter Simulation System GmbH	26%	-	26%	2,807	-	(28)	-	-	-	-	-	(28)
Euromids SAS	25%	-	25%	877	-	113	-	-	-	-	-	113
MRCM GmbH	25%	-	25%	(505)	-	(50)	-	-	-	-	-	(50)
Indra Sistemas Tecnocom, S.A. de C.V.	50%	-	50%	187	-	93	-	-	-	-	-	93
						120,787	**(2,297)**	**5,558**	**(3,796)**	**(2,316)**	**(3,821)**	**114,115**
BMB Group companies:												
BMB Gestión Documental, S.L.	50%	-	50%	14,182	38,841							
BMB Gestión Documental Canarias, S.L.	-	70%	70%	503	2,022							
Formaliza Servicios de Formalización y Gestión, S.L.	-	100%	100%	747	5,256							
Sociedad de Procesos y Formalización 2004, S.L.	-	100%	100%	7	1,110							
CDS Corporación de Servicios Externos, S.L.	-	67%	67%	2,016	6,293							
Assesors Registrals, S.L.	-	100%	100%	587	2,903							
GIPSA, S.L.	-	100%	100%	3	660							
Ouakha	-	100%	100%	10	-							
Trias Bertrán, S.L.	-	40%	40%	23	-							
Europraxis Group companies:												
Europraxis Atlante, S.L.	100%	-	100%	9,842	22,913							
Tourism & Leisure Advisory Services, S.L.	-	70%	70%	296	2,392							
Europraxis Consulting, Ltd. (UK)	-	100%	100%	358	2,114							
Europraxis Consulting, Ltda. (Brazil)	0.002%	100%	100%	(68)	1,512							
Europraxis Consulting Argentina, S.A.	0.84%	99%	100%	750	-							
Compraxis Prestaçao de Servicios de Consultoria Ltda.	-	75%	75%	(553)	1,762							
Advanced Logistics Group, S.A.	-	51%	51%	2,704	4,145							
Europraxis Consulting, S.r.l.	-	100%	100%	(11)	1,102							

This Appendix forms an integral part of notes 1 and 17 to the consolidated annual accounts, in conjunction with which it should be read.

Appendix II

Information provided by the Board of Directors in relation to Article 127 (4) of the Spanish Companies Act

	Company	Position	Shareholding
Javier Monzón de Cáceres	Banco Inversis Net, S.A.	Representative of Indra Sistemas, S.A.	–
	ACS Actividades de Construcción y Servicios, S.A.	Director	0.001%
	ACS Servicios y concesiones, S.L.	Director	–
	YPF, S.A	Nominal Director	–
Carlos Vela García-Noreña (representative of Mediación y Diagnósticos, S.A.)	Caja Madrid	General Manager of Business Banking	–
	Banco Inversis Net, S.A.	Individual representing the Chairman of the of the Board of Directors of Mediación y Diagnósticos, S.A.	–
	Mapfre Vida, S.A.	Director	–
	Mapfre Empresas Compañía de Seguros y Reaseguros, S.A.	Director	–
	Bolsas y Mercados, S.A	Director	–
	Desafio Español 2007, S.A.	Director	–
Manuel Soto Serrano	Banco Santander Central Hispano, S.A.	4th Vice-chairman of the Board of Directors	0.003%
	Corporación Financiera Alba, S.A.	Director	0.014%
	Occidental Hoteles Management, S.A.	Member of the Consultancy Committee	–
	Inversiones Inmobiliarias Lar, S.A.	Director	–
	Mercacapital, S.L.	Chairman of the Advisory Council	–
Humberto Figarola Plaja	Indra Espacio, S.A.	Chairman of the Board of Directors, representative of Indra Sistemas, S.A.	–
	Indra Emac, S.A.	Representative of Indra Sistemas, S.A. and President of the Board of Directors	–
	Indra Systems, Inc.	Director, representative of Indra Sistemas, S.A.	–
Regino Moranchel Fernández	Europraxis-Atlante, S.L.	Director, representative of Indra Sistemas, S.A	–
	Indra Sistemas Portugal, S.A.	Chairman of the Board of Directors, representative of Indra Sistemas, S.A.	–
	Indra SI, S.A.	Vice-chairman of the Board of Directors, representative of Indra Sistemas, S.A.	–
	Azertia tecnologías de la Información, S.A.	Director, representative of Indra Sistemas, S.A.	–
Manuel Azpilicueta Ferrer	Autopista Madrid-Sur, C.E.S.A. e Inversora de Autopista Madrid-Sur, S.A.	Chairman of the Board of Directors	–
	Autopista Madrid-Levante C.E.S.A. e Inversor de Autopista Madrid-Levante, S.A.	Chairman of the Board of Directors	–

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

	Company	Position	Shareholding
Francisco Constans Ros	Desarrollos Especiales de Sistemas de Anclaje, S.A.	Director	–
	Catalana de Iniciatives SCR, S.A.	Representative of Director	–
Pedro Ramón y Cajal	Antena 3 Televisión, S.A.	Director	–
Estanislao Rodriguez-Ponga y Salamanca	Caja de Madrid	Vice-chairman of the Board of Directors	–
	Radio Popular, S.A.	Director	21 shares
	Testa Inmuebles en Renta, S.A.	Director	–
	Bichi, S.L.	Director	–
	UTISA Tableros del Mediterraneo, S.L.	Director	–
	Ason Inmobiliaria de Arriendos, S.L.	Director	–
Joaquín Moya-Angeler	Redsa, S.A.	Chairman of the Board of Directors	50%
	Pulsar Technologies	Chairman of the Board of Directors	33%
	Presenzia.Net	Chairman of the Board of Directors	49%
	Bety Byte, S.L.	Vice-chairman of the Board of Directors	27%
	Hildebrando (Mexico)	Chairman of the Board of Directors	3.30%
Juan Carlos Ureta	Sociedad Rectora de la Bolsa de Madrid, S.A.	Director	–
	Grupo Rayet, S.A.	Director	–
	Cpp Protección y Servicios de Asistencia, S.A.	Director	–
	Renta 4 Servicios de Inversión, S.A.	Chairman of the Board of Directors and Managing Director	60.43%
	Babysoft, S.L.	–	5%

This Appendix forms an integral part of note 39 to the consolidated annual accounts, in conjunction with which it should be read.

Director's report

1. Summary of 2006

2006 has been a particularly important year for Indra. In addition to the acquisition of Azertia and Soluziona, the Company has maintained its positive performance with a growth rate exceeding that of the market and increased profitability. Furthermore, Indra has once again fulfilled the objectives it set for the year.

	Objectives	Close without Azertia
Growth in sales	9-10%	**11%**
Total Order Intake	> than sales 2006	**13%** higher
EBIT margin	12%	**12%**

Without considering the acquisition of Azertia:

- Order intake exceeded sales by 13%, reaching Euros 1,502 million. This positive development has been sustained throughout the entire year by the strong performance of IT activity, which increased by 11%, and the large number of contract wins in the SIM/ATS and DEE segment where the intake was 21% higher than revenues.
- Sales amounted to Euros 1,331 million, a growth of 11%, on account of the following:

- 17% increase in service segments; and
- 12% rise in IT activity due to overall strong demand and double-figure growth in all vertical markets.

- There has been a 10% rise in the order book, with important growth rates in the solutions segment (+15%). The order book totalled Euros 1,788 million at year end, equivalent to 1.34 times sales for the last 12 months.
- Operating Profit (EBIT) of Euros 160 million exceeded the rise in sales and is equivalent to an operating margin (EBIT/sales) of 12%, compared to 11.8% the preceding year.
- Attributable Profit is Euros 112 million, generating an increase in EPS (Earnings per Share) of 10%. It should be noted that the evolution of attributable profit this year has been affected by lower financial results (mainly due to the extraordinary dividend and the plan to repurchase and amortise 5% of capital last year) and by a higher level of taxation (as a result of the lower weight of applicable deductions and the one-off effect this year of the application of the new Income Tax Law which, in contrast, will have a positive effect as of 2007).
- Operating cash flow has risen by 85% as a result of the positive development of operating profit and the reduction in working capital needs compared to last year. Two important factors had an impact on Company cash-flow during 2006:

- the payment of an ordinary dividend on 3 July on account of 2005 for a total of Euros 55 million. This dividend resulted in the duplication of the amount earmarked the prior year for the same item, after the Company increased its Pay-Out policy from 35% to 50%-60%; and
- the acquisition on 15 September of 100% of Azertia's capital for a sum of Euros 118.8 million.

Including Azertia:

Subsequent to the aforementioned acquisition, Azertia has been fully consolidated since 1 September 2006. Consequently, the main figures at year end are as follows:

- Sales reached Euros 1,407 million, representing an increase of 17% compared to the preceding year.
- The order book is up Euros 1,885 million or 16% on the prior year.
- Net operating margin at year end is Euros 164 million, 15% higher than the figure for 2005, which has generated an EBIT margin of 11.6%.

- Attributable Profit increased to Euros 114 million, with a rise of 12% in EPS. Moreover, the acquisition of Azertia has led to positive growth in EPS of 2%.
- As a result of the investment in this acquisition, Indra has a net debt of Euros 59 million at year end, compared to Euros 54 million of net cash at the 2005 closing date.

2. Objectives for 2007

Indra forecasts above-average growth for the Spanish economy for 2007 compared to Europe, and sustained high growth rates in Latin America.

Indra considers this environment to favour the continuance of the growth in demand experienced in the IT sector during 2006, despite the present climate of fierce competition. Therefore:

- significant growth is forecast in the Telecommunications, Energy and Industry, Finance and Public Administrations markets, driven by strong demand and strengthening of our market position through actions carried out in 2006 and the subsequent impact of acquisitions, which are highly complementary to Indra; and
- the Defence and Transport and Traffic markets will continue to perform strongly, which will allow Indra to sustain its growth within these markets.

Azertia and Soluziona will be fully integrated into the Company in 2007. Consequently, Indra has already set in motion a sole, consolidated organisation with ambitious objectives and initiatives to be carried out during the first quarter ("90-day Plan"), which Indra believes are highly achievable. This integration will allow business and operational synergies (income and costs) to be optimised and will reinforce management capacity (management teams and highly qualified and skilled professionals).

The companies acquired were selected with the intention that, after the appropriate and necessary period of integration and adaptation of their operational framework and management systems, Indra's profile of high growth rates and profits would be strengthened in such a way that it could continue growing above and operating more profitability than the sector average and the principal companies within the sector.

In this context, the Company has set itself challenging objectives for 2007, which it hopes to achieve through the initiatives already underway. The objectives are as follows:

- Reach sales levels of between Euros 2,110 million and Euros 2,130 million, equivalent to an increase of between 8% and 9% on consolidated pro-forma sales for 2006 (Euros 1,950 million). These figures imply growth of at least 50% on actual FY06 growth.
- Attain an order intake that exceeds sales for the year, in such a way that the order book continues to grow at year end.
- Achieve an EBIT margin of at least 10%, including between Euros 10 million and Euros 12 million earmarked for various cost cutting measures, and savings for 2007 of Euros 6 million to Euros 7 million.

Indra has strengthened its position in the Spanish and Latin American markets through the acquisitions carried out during 2006. One of the Company's main objectives continues to be the improvement of access to other important international markets where it can offer its greater capacity. Consequently, the Company continues to actively explore acquisition opportunities that would allow it to achieve this objective more rapidly, especially in more global activities and businesses with greater technological content. Indra's current financial position should enable it to carry out these potential acquisitions, and increase remuneration for its shareholders.

3. Main figures 2006

The main year-end figures are shown in the following table:

	2006 (€M)			2005 (€M)	Variation (%)	
Indra	**Indra excl.-Azertia**	**Azertia Integr.**	**Indra**	**Indra**	**Indra excl.-Azertia**	**Indra**
Order Intake	1,502.0	48.6	**1,550.5**	**1,416.5**	6	**9**
Ordinary Income (Sales)	1,331.3	75.5	**1,406.8**	**1,202.2**	11	**17**
Order Book	1,787.7	97.3	**1,885.0**	**1,623.1**	10	**16**
Operating Profit (EBIT)	159.7	3.9	**163.6**	**142.4**	12	**15**
EBIT Margin on sales	12.0%	5.2%	**11.6%**	**11.8%**	0.2 p.p.	**(0.2) p.p.**
Attributable Profit	112.1	2.0 (*)	**114.1**	**104.1**	8	**10**
(Net Debt)/Cash Position	88.6	(17.6)	**(58.9)**	**54.1**	34.5 M€	**(113.0) M€**

(*) Includes financial impact of acquisition of the company

Earnings per share (under IFRS)	**2006 (€)**	**2005 (€)**	**Increase (%)**
Basic EPS	0.7948	0.7068	12
Diluted EPS	0.7948	0.7068	12

- **Basic EPS** is calculated based on the **Attributable Profit for the year, considering a number of shares equal to the Company's total shares, less the weighted own shares** at the end of each year. Weighting of these own shares is based on the number of days which the shares have been on the Company's balance sheet during the year.

	2006	**2005**
Total no. of shares	146,187,926	150,393,135
Weighted own shares	2,613,366	3,151,197
Total shares considered	**143,574,560**	**147,241,938**

The reduction in the **total number of shares** between 2005 and 2006 is due to the redemption of 5.33% of the Company's capital in July 2005 (5% as part of the programme for the repurchase of shares and 0.33% for redemption of redeemable shares). At the end of 2005 and 2006, the total number of the Company's shares was 146,187,926. Likewise, at the end of 2006, the number of weighted own shares was 2,613,366, of which 2,281,000 comprised shares used to cover the 2005 Options Plan, the hedging of which has been carried out by means of an Equity-Swap with a bank.

- **Diluted EPS** is calculated in the same way but taking into account the potential dilution generated by instruments which can be converted into shares or with an equity component. In the case of Indra, as it does not have convertible shares or any other instrument of this type, this dilution does not exist and therefore diluted EPS are the same as basic.

- Changes in the consolidated Group have led to additional sales of Euros 87.8 million compared to the same period in the prior year.

4. Commercial activity and sales by segments

Total sales at the 2006 close are broken down as follows:

Total Sales Breakdown

a. Solutions

The main growth areas within the solutions segment in 2006, and their comparative figures for the preceding year, including and excluding the effect of the acquisition of Azertia in the last four-month period of 2006, are as follows:

	2006 (€M)			2005 (€M)	Variación (%)	
	Indra excl.-Azertia	Azertia Integr.	Indra	Indra	Indra excl.-Azertia	Indra
Order Intake	1,201.8	21.4	**1,223.2**	**1,106.9**	8.6	**10.5**
Sales	997.0	43.0	**1,039.9**	**916.1**	8.8	**13.5**
Order Book	1,527.3	20.2	**1,547.5**	**1,324.1**	15.3	**16.9**

The main highlights of 2006 are as follows:

- Initiation of contracts, mainly from the second stage of the EFA, which generated a total order intake of Euros 221 million.
- The positive development of activity related to air traffic management systems with important projects underway in both the Spanish and international markets (P1/iTEC in the German market; traffic management system in Libya; unification of air traffic systems in Central America; and traffic management system in Uganda).
- Initiation of contracts in the last quarter of 2006 for control systems for the European Galileo Satellite Navigation Programme.
- The good performance of activities related to: healthcare management systems; Social Security management systems; modernisation of the judicial system, an activity in which the acquisition of Azertia has significantly improved the value of what the Company has to offer; and identification systems, notably the projects for the new Spanish Electronic Identity Card initiated last year.

- The notable success of different solutions in the field of finance, especially those related to management of the international side of banking entities, electronic billing, and risk management following Basel II requirements.
- Lower order intake and sales for electoral projects compared to the same period of the preceding year (some Euros 12 million). If this had not been the case, total sales in this solutions segment would have increased by 15% (10% excluding the acquisition of Azertia).

b. Services

With regard to Services, the business activity for the year and the comparative figure for the preceding year are as follows:

	2006 (€M)			2005 (€M)	Variation (%)	
	Indra excl.-Azertia	Azertia Integr.	Indra	Indra	Indra excl.-Azertia	Indra
Order Intake	300.1	27.2	**327.3**	**309.6**	(3.1)	**5.7**
Sales	334.3	32.6	**366.9**	**286.2**	16.8	**28.2**
Order Book	260.4	77.1	**337.5**	**298.9**	(12.9)	**12.9**

The reduction in order intake and order book compared to 2005 is due to the important multi-year projects contracted in 2005, inter alia, outsourcing of the maintenance of air force systems for the Spanish Ministry of Defence; the management of lotteries and betting systems; outsourcing of services for the Catalonian government; technological outsourcing for Caixa General de Depósitos; and outsourcing for the Leche Pascual Group.

The good performance of the public administrations, telecommunications and transport sectors in 2006 should be noted.

The increase in sales figures is the result of various significant aforementioned projects.

The acquisition of Azertia in the last four-month period of the year has contributed significant projects to this segment, especially in the finance and public administration sectors, with a total order book of more than Euros 75 million.

5. Sales by geographical areas (secondary segments)

Sales by geographical areas are as follows:

	2006 (€M)				2005 (€M)		Variation (%)	
Sales	Indra excl.-Azertia	Azertia Integr.	Indra	%	Indra	%	Indra excl.-Azertia	Indra
Total sales	1,331.30	75.5	**1,406.80**	**100**	**1,202.2**	**100**	10.7	**17.0**
Spain	886.2	58.6	**944.8**	**67**	**775.6**	**65**	14.3	**21.8**
International	445.1	16.9	**462.0**	**33**	**426.7**	**35**	4.3	**8.3**
* European Union	301.3	0.6	301.9	**21**	300.3	25	0.3	0.5
* USA and Canada	44.1	0.7	44.8	**3**	37.0	3	19.2	21.1
* Latin America	46.5	15.6	62.1	**5**	57.7	5	–19.5	7.6
* Others	53.2	-	53.2	**4**	31.7	3	68	68

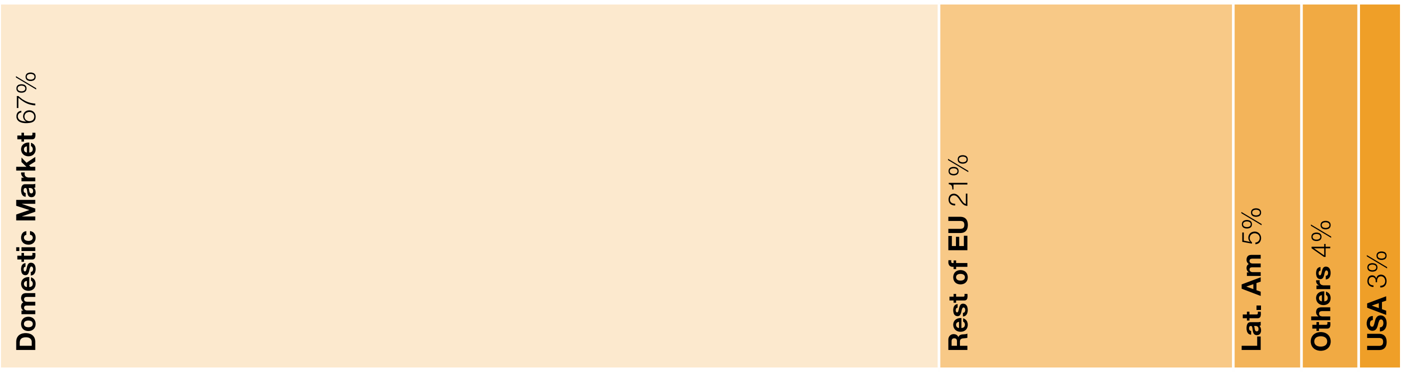
At the end of 2006, the Spanish market accounted for 67% of the Company's sales, representing the greatest increase this year. This increase is largely due to the positive growth in IT activity, with a rise in sales of 16% (24% including the acquisition of Azertia).

The sales figure for the international market advanced by 4% in line with the figure achieved at the close of the third quarter, and order intake increased by 34% (31% excluding Azertia), indicating that this market continues to represent strong growth potential for Indra.

Sales in the international market during the year have been affected by the completion of various defence projects in the German market. Consequently, sales figures for the European Union remain similar to those of the same period of the prior year. Sales have also been affected by a drop in electoral projects and the completion of various transport and traffic projects in Latin America. With regards to the USA and Canada, a good performance was maintained throughout 2006, mainly attributable to the favourable growth in simulation activity and to transport and traffic-related projects. The increase in simulation activity in the Chinese market has been the main feature of the other countries segment.

The acquisition of Azertia in the last four-month period of the year has led to a significant increase in sales in the Latin American market, particularly to the Mexican market, where sales at year end were similar to those of Brazil and Chile. These countries comprise the three leading markets for the Company in this geographical area.

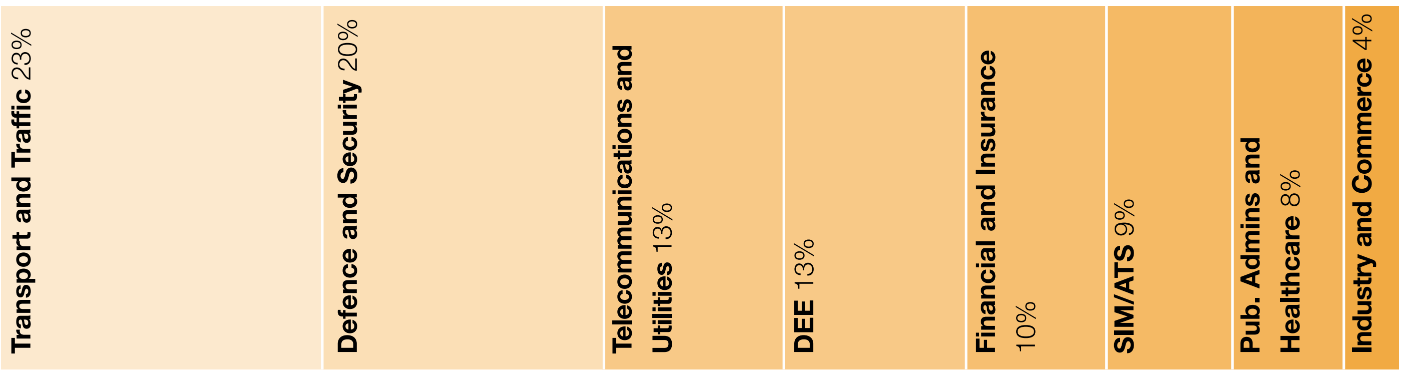
Sales by geographical area



6. Commercial activity and sales by sectors

Total sales at the 2006 close are broken down as follows:

Total Sales Breakdown



a. Information Technology

IT Order intake

	2006 (€M)			2005 (€M)	Variación (%)	
	Indra excl.-Azertia	Azertia Integr.	Indra	Indra	Indra excl.-Azertia	Indra
Order Intake	1,131.5	48.5	**1,180.0**	**1,016.3**	11.3	**16**

Positive growth of order intake was maintained during 2006, closing the year with double-figure growth rates in all markets except Defence and Security where, in any case, order intake exceeded sales by 9.5%.

Without considering the acquisition of Azertia, trends in the following markets are noteworthy:

- Public Administrations, boosted by demand of regional administrations and solutions related to healthcare and identification systems;
- Transport and Traffic, where air traffic management systems activity in the international market continues to show signs of improvement;
- Telecommunications and Utilities, notably the growth in the domestic utilities market, and various projects related to control systems for the European Galileo Satellite Navigation Programme;
- and Financial & Insurance, especially the Spanish financial sector

The acquisition of Azertia during the fourth quarter had a significant effect on the Public Administrations and Financial markets, which both reached order intake figures of more than Euros 18 million during this period. Noteworthy were healthcare–related projects for the former and BBVA projects for the latter.

Order intake for electoral activity in 2006 amounted to Euros 5 million, representing 96% of the domestic market compared to Euros 16.5 million in the same period of the prior year.

IT Sales

Total sales in the IT area are up 12% on the figure for 2005, which increases further to 20% if the acquisition of Azertia during the last four months of the year is included. The breakdown by markets is as follows:

	2006 (€M)			2005 (€M)	Variation (%)	
IT Sales	Indra excl.-Azertia	Azertia Integr.	Indra	Indra	Indra excl.-Azertia	Indra
Transport and Traffic	322.9	--	**322.9**	**294.6**	10	**10**
Defence and Security	282.0	--	**282.0**	**253.9**	11	**11**
Telecommunications and Utilities	174.5	13.0	**187.5**	**151.4**	15	**24**
Public Administration and Healthcare	98.4	19.1	**117.4**	**88.3**	11 (*)	**33**
Financial and Insurance	109.7	30.9	**140.6**	**94.4**	16 (**)	**49**
Industry and Commerce	38.3	12.6	**50.9**	**34.5**	11	**48**
Total	**1,025.7**	**75.5**	**1,101.3**	**917.0**	**12**	**20**

(*) Public administration and healthcare, excluding electoral projects, rise by 30%

(**) Financial and Insurance, excluding the acquisition of BMB, rise by 10%

Although all of the markets in which the Company operates reached double-figure growth rates prior to the acquisition of Azertia, the positive growth in the Telecommunications and Utilities, Public Administrations and Healthcare and Financial and Insurance markets is notable.

Telecommunication and Utilities market:

- good overall performance throughout the year, notably in the mobile Telephony, Utilities and Media sectors, the last two especially in the Spanish market.
- the acquisition of Azertia in the last four-month period of the year led to sales in the Energy and Utilities sector of Euros 13 million.

Public Administrations and Healthcare market:

- growth rate reached 30% excluding electoral projects, which is attributable to the high demand of the different regional public administrations and various projects in the areas of healthcare and identification systems (Electronic National Identity Card, etc.).
- the sales figure for electoral activity was Euros 4.8 million compared to Euros 16.5 million in the same period in 2005.
- Azertia sales figure for the last four months of the year was Euros 19 million, with high sales particularly in healthcare activity.

Financial and Insurance market:

- overall strong performance was maintained with 16% growth (10% excluding the effect on the consolidated group of the acquisition of 50% of BMB shares in April 2005.)
- the acquisition of Azertia has led to almost a 50% rise in sales in this market.

In terms of the breakdown by geographical areas, the domestic market has been, once again, the main market for IT activity, representing 76% of sales (including and excluding Azertia). Within the international market, the European Union continues to be the main market, representing 15.7% of the total IT business (16.8% excluding the acquisition of Azertia), followed by Latin America with 5.5% of IT activity (4.4% excluding Azertia).

IT Orders

Order intake in IT activity for 2006 exceeded sales by 10%, which has allowed the order book in this business area to rise by 9% at year end, equivalent to 1.1 times the IT sales during the last 12 months.

	2006 (€M)			2005 (€M)	Variation (%)	
	Indra excl.-Azertia	**Azertia Integr.**	**Indra**	**Indra**	**Indra excl.-Azertia**	**Indra**
Order Book	1,109.1	97.3	**1,206.5**	**1,014.0**	9	**19**

If the acquisition of Azertia is included, the order book increased by 19%, with notable growth in the financial and healthcare markets.

b. SIM/ATS and DEE

SIM/ATS and DEE order intake

Order intake of this business area during 2006, taking into consideration that Azertia does not engage in activity in this area, is as follows:

			Variation (%)	
Order Intake	**2006 (€M)**	**2005 (€M)**	**€M**	**%**
Simulation and Automatic Test Systems	132.8	117.3	15.5	13
Defence Electronic Equipment	237.7	282.9	(45.2)	(16)
Total	**370.5**	**400.2**	(29.7)	**(7)**

For DEE and SIM/ATS activity in 2006, the Second Stage of the Eurofighter (EFA) is noteworthy, representing a combined figure of Euros 133 million. Although this figure is significant, it is Euros 57 million less than the prior year and, in spite of the very high order intake for 2006, the total is 7% lower than 2005, a record year for the Company in terms of order intake in this activity.

In addition to the Second Stage of EFA projects, notable contracts in SIM/ATS activity include the development of a simulator for Air China, as well as various projects for the US Navy such as the project for the modernisation of eight H-60 Seahawk helicopter simulators, which forms part of the bidding for the Training Systems Contract II (TSC II) framework project.

SIM/ATS and DEE sales

			Variation (%)	
Sales	**2006 (€M)**	**2005 (€M)**	**€M**	**%**
SIM / ATS	122.6	115.3	7.3	6
DEE	182.9	169.9	13.0	8
Total	**305.5**	**285.2**	20.3	**7**

These two business areas have grown by 8%, particularly simulation activity in China and the USA.

By geographical areas, Europe continues to be Indra's main market, accounting for 42% of the total sales from SIM/ATS and DEE, followed by the Spanish market with 36% and the American market with 12%.

SIM/ATS and DEE order book

The order intake for both areas has exceeded sales in 2006 by 21%, thus raising the order book to Euros 679 million, which is up 11% on the 2005 close.

Order Book	2006 (€M)	2005 (€M)	Variation (%) €M	%
SIM / ATS	202.8	189.5	13.3	7
DEE	475.8	419.6	56.2	13
Total	**678.5**	**609.0**	69.5	**11**

This order book is equivalent to 2.22 times the sales from the last 12 months, compared to 2.14 at the end of 2005.

7. Analysis of the consolidated financial statements

All financial statements for 2006 include the acquisition of Azertia in the last four-month period of the year.

The following points should be noted regarding the comparison of the 2006 income statement with the preceding year:

- Net Operating Profit (EBIT) totalled Euros 163.6 million, which implies an operating margin (EBIT/SALES) of 11.6%. Excluding the effect of the acquisition of Azertia, Indra's operating margin stood at 12% (compared to 11.8% in 2005), thus fulfilling the objective set for 2006. The rise in the EBIT margin is mainly due to the increase in profitability in the solutions segment.

- Attributable Profit has risen by Euros 114.1 million, representing 10% growth. The acquisition of Azertia in the last four months of the year has had a positive effect on Attributable Profit of Euros 2 million, which includes the cost of acquiring the company. The following factors should be taken into consideration when calculating Attributable Profit:

- reduced financial results, mainly due to the decrease in the average cash position following:
  - the distribution in 2005 of Euros 126 million more than this year to shareholders (in the form of an ordinary and extraordinary dividend, and the repurchase and redemption of shares).
  - lthe acquisition of 100% of Azertia's shares (Euros 118.8 million) on 15 September.
- an increase in income tax in line with the amount budgeted at the beginning of the year, but lower than the forecast figure for year end due to a one-off extraordinary reduction in Azertia's tax rate in 2006.

- It should also be noted that, as a result of the reduction in the number of Company shares in 2005 following the aforementioned repurchase and redemption, Earnings per Share (EPS) increased by 12%, exceeding that of Attributable Profit.

As regards the balance sheet:

- Goodwill has increased by Euros 76 million, of which Euros 69 million was generated after the acquisition of Azertia.

- Net operating working capital has risen from Euros 129 million in 2005, equivalent to 38 sales days, to Euros 232 million, equivalent to 55 sales days. Excluding the effect of the acquisition of Azertia, the net operating working capital at the 2006 year end was Euros 172 million, equivalent to 47 sales days, which is in line with the budgeted figure.

- As a result of the acquisition of 100% of Azertia for Euros 118.8 million, which contributed a net financial debt of Euros 23.4 million, cash and cash equivalents have been reduced, while borrowings have increased.

- Lastly, other current liabilities include the usual items relating to debts pending settlement, mainly with public administrations (personal income tax, VAT and social security withholdings). Of the total increase in 2006, Euros 21 million was generated after the acquisition of Azertia.

Operating cash flow has increased by 17% to Euros 194 million at the 2006 closing date. Net cash flow generated through operations was Euros 139 million after having invested Euros 34 million in working capital.

During the year the Company earmarked Euros 221 million for the following:

- investments in fixed assets (tangible and intangible) totalling Euros 38 million, which includes investments in Azertia of Euros 7.4 million.
- financial investments of Euros 128 million, notably the acquisition of 100% of Azertia's shares on 15 September for Euros 118.8 million.
- the payment of an ordinary dividend on 3 July on account of 2005 totalling Euros 55 million, representing approximately double the dividend paid out the prior year.

Consequently, the Company had net debt of Euros 59 million at year end.

8. Human resources

The total staff was 14,478 persons at the 2006 close, up on the 2005 close as follows:

No. Persons	Changes to Consolidated Group Azertia	Changes to Consolidated Group Total	Ordinary variation	Total variation	Variation (%)
At 31/12/2005	4,563	4,776	1,420	6,196	74.8%

The average headcount is 10,611 persons, an increase of 40% compared to the prior year close. The main reasons for the rise in staff numbers are:

- the acquisition of Azertia, which accounts for half of the increase
- the strong growth in sales in service segments (17% excluding Azertia), both in Spain and Latin America.

At year end, 15% of the Company's staff are located outside of Spain, mainly in Latin America (12% of total).

9. Own shares

Using the delegated powers conferred to it at the general meeting of shareholders, the Parent Company directly owns 76,697 shares for Euros 1,411 million at 31 December 2006.

Indirectly, at 31 December 2006 the Parent Company owns 2,281,000 shares for an amount of Euros 38,389 million, corresponding to the Equity Swap contracted with a bank as coverage for the 2005 Options Plan.

In 2006 the Parent Company acquired 5,528,831 own shares (2.10% of annual volume) on the stock exchange and sold 5,485,082 own shares (2.08% of annual volume).

10. Research and development activities

Indra has continued making an important effort with human and financial resources by developing services and solutions which position it as technological leader in the different sectors and markets in which it operates. The amount earmarked for research, development and innovation activities accounts for approximately 7.0% of the net turnover of the business during the year.

11. Main activity-related risks

Indra confronts the following main risks:

- Strategic and economic environment risks
- Technological risks
- Risks from management of human capital
- Economic, financial and administrative risks
- IT management risks
- Project management risks
- Equity risks

Indra has prepared a risks map through which risks are managed. Risks are detected and the necessary guidelines and monitoring and control systems are established to prevent risks and minimise their impact. Risk management is described in more detail in the Corporate Governance report.

12. Shareholder remuneration

In accordance with the policy for shareholder remuneration, at their annual general meeting held on 22 June 2006 the shareholders approved the distribution of an ordinary dividend of Euros 0.39 per share on account of 2005 profit, equivalent to 55% of the consolidated net profit per share for that year, and up 100% on the prior year. This dividend was effective from 3 July 2006 and totalled Euros 56,328 million.

This approval by the shareholders reflects the board of directors' consideration that, taking into account the financial position of the Company, the short and medium term prospects for cash flow generation, in line with the capacity for organic growth, and acquisition opportunities that could be considered reasonably likely, the Company was in a position to apply a greater distribution of profit through an ordinary dividend, thus increasing the pay-out from 35%, as established at the end of 2003, to an amount ranging between 50% - 60%.

The board of directors of Indra has reviewed the financial position of the Company, its forecast cash flow generation, funding requirements for operations and acquisition opportunities that might reasonably arise in the foreseeable future.

In light of this commitment and of information available at 2006 year end, the board of directors intends to propose to the shareholders at their next general meeting that a dividend of Euros 0.78 gross per share be approved, with an approximate disbursement totalling Euros 128,119 thousand, equivalent to a pay-out of 100% of the earnings per share, and up 100% on the dividend per share distributed in the prior year. This proposal entails applying 100% of profit for 2006 to the payment of dividends (Euros 0.684 gross per share) and the distribution of freely-distributable reserves amounting to Euros 15,773 thousand (Euros 0.096 gross per share).

13. Subsequent events

a) As authorised by the shareholders at their annual general meeting held on 20 December 2006, the Company increased its share capital on 12 January 2007 by way of public deed.

This capital increase, excluding the preferential subscription right, consisted of the issuance and circulation of 18,068,171 new class A ordinary shares of Euros 0.20 par value each and a share premium of Euros 15.30 per share.

The new shares were quoted on the stock exchange on 29 January 2007.

This increase in capital has been fully subscribed and paid by Unión Fenosa, S.A., through the contribution of Soluziona's consultancy and information technology business comprising the companies Soluziona Consultoría y Tecnologías de la Información, S.L.U., Soluziona Sistemas de Seguridad, S.A.U. and Soluziona Internacional, S.L.U.

b) On 28 February 2007 the Parent Company acquired the remaining 50% interest in BMB Gestión Documental, S.L. from the founding shareholders of that company for Euros 32 million. Consequently, this company, which provides business process outsourcing services in the financial sector, is now a fully-owned subsidiary of the Parent Company.

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Indra

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