



AUDIT AND COMPLIANCE COMMITTEE
ACTIVITIES REPORT

2017

February 2018

INTRODUCTION

Ever since its shares began trading publicly, Indra has had in place a corporate governance system which has remained in continuous compliance with best national and international practices as well as applicable law.

An Audit and Compliance Committee (hereinafter the "Committee") has been part of the framework of this corporate governance system at Indra since 1999. Its powers, composition and operating rules have always been regulated by the Rules of the Board of Directors ("Board Rules) and the Company's Bylaws. The Committee has vigorously undertaken the duties within its competence since its inception, as has been reported in the annual public reports on Corporate Governance of the Company.

The mandate and procedures of the Committee have been continuously updated to keep them in compliance with multiple legal changes as well as with changes in Recommendations in areas of Corporate Governance. Modifications during the last few years of Company internal operating procedures have faithfully reflected those changes. Among recent changes of note is publication this past 27 June 2017 by the *Comisión Nacional de Mercados de Valores* ("Spanish Securities Exchange Commission" hereinafter "CNMV") of a Technical Guide for audit committees in entities of public interest, which Guide was reviewed by the Committee in its June 2017 meeting.

Applying best practices of transparency in corporate governance, since fiscal 2003 the Annual Activities Report of the Audit and Compliance Committee at Indra has been made available to the Shareholders upon call of Annual Shareholders Meetings and may be reviewed on the corporate website as well as by requesting a free copy from the Shareholder Office.

The present Activities Report of the Audit and Compliance Committee of Indra was approved at the Committee meeting held 19 February 2018 and approved by the Board at its meeting held 19 March 2018.

COMPOSITION, APPOINTMENT AND PROFILE OF MEMBERS

In accordance with the Board Rules and the Bylaws, the Committee is composed exclusively of external Directors whose membership is to be between three and six. The current composition of the Committee is as follows:

Chairman

Mr. IGNACIO SANTILLANA
(Independent Director)
Member since December 2014 and Chairman since June 2015

Members

Mr. JUAN CARLOS APARICIO
(Proprietary Director named upon proposal by Sociedad Estatal de Participaciones Industriales – SEPI --)
Member since October 2013

Mr. LUIS LADA
(Independent Director)
Member since June 2016

Mr. ENRIQUE DE LEYVA
(Independent Director)
Member since June 2015

Mr. SANTOS MARTÍNEZ-CONDE
(Proprietary Director named upon proposal by Corporación Financiera Alba, S.A.)
Member since June 2013

Ms. MARÍA ROTONDO
(Independent Director)
Member since July 2017

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

As can be seen from the list above, of the six outside Directors who make up the Committee, four are Independent.

During fiscal 2017 Ms. María Rotondo was named as a member of the Committee, replacing Mr. Terol.

The characteristics of the Committee members are consistent with the provisions of the Code of Good Governance for Listed Companies so far as their independence (Recommendations 39 and 47) as well as their professional profiles and gender diversity are concerned.

A brief professional profile of each of the members of the Committee follows:

Ignacio Santillana

Born in 1948. PhD in Economics (1978) from the University of Indiana and Doctorate in Economics from the Universidad Autónoma de Madrid (1980). Since December, 2012, he has been chairman of the Board of Grupo Santillana Educación Global, S.L. and a member of the board of Prisa Radio, and Cadena Ser. While at Grupo Prisa he served as COO. Before that, he spent his career in the United States as executive vice president at G.T.E. and at Telefónica, where he served as CFO, CEO of Telefónica Internacional, and General Manager of Telefónica. Earlier, he was chairman of the Empresa Nacional de Innovación and economist at the Asociación Española de la Banca Privada. He is a member of the board at the Escuela de Finanzas, AFI. In 1974 he was awarded the Juan March scholarship and in 1978 was a Fulbright scholar.

Other highlights of his career: Chairman of Nokia España and of its Advisory Committee, director of Banco Gallego, and member of the Advisory Boards of Accenture, Eptisa, and Fundación Albéniz.

Juan Carlos Aparicio

Born in 1955. Degree in Chemistry. Expert in business organizations and vice secretary of the Federación de Empresarios of Burgos.

He has a wide range of experience in national, regional and local government. He served as vice president and member of the Consejería de la Presidencia ("President's Advisory Council") of the regional government of Castilla y León until 1989, Secretary of State for Social Security (1996 - 1999), Minister of Labour and Social Affairs (1999 - 2002) and Mayor of Burgos (2003 - 2011). As a member of the national legislature for several terms, he has been active in several congressional committees, notably chairman of the Interior Committee during the present congress.

In the field of business, he has served on the boards of Iberia and Banco Exterior de España, and was Chairman of the Board of PARKMUSA, as well as the Asociación del Plan Estratégico for the City of

Burgos and of CETABSA. He serves as a member of the Scientific and Academic Advisory Board for Universidad Isabel I.

Luis Lada

Born in 1949. Telecommunication Engineer and Académico de Número of the Royal Academy of Engineering, with a long career in Grupo Telefónica where he has been chairman of Telefónica Móviles and Telefónica de España. Additionally, he has been a director and leading member of many companies and organizations related to IT. He is an independent director and member of the audit committee at ENCE, Energía y Celulosa, S.A., non-executive chair of Banco Inversis and an advisor to Assia Inc.

Enrique De Leyva

Born in Sevilla, 1959. Civil Engineering degree from the Universidad Politécnica de Madrid and MBA from Columbia University with a double major in Accounting and Finance. Currently he is a founding partner at Grupo Magnum and chairman and board member of several companies within the group (among them, chairman of Grupo Itacare). Additionally, he is a member of the advisory board of Abante Asesores y Ambiente Sgr. S.p.A.

His professional career began at Unión Fenosa (1983-1986), then McKinsey & Company, Inc. (1986-2006) where he was chairman of its Spanish affiliate, and Magnum Industrial Partners, S.L., where he has been a partner since 2006. He has been chairman of Grupo Geriatros, Nace Schools, and Pretersa-Prenavisa, as well as director at Centro Médico Teknon, S.L., Iberwind, and Bio Oils, S.L., among other companies.

Santos Martínez-Conde

Born in Santander in 1955. Civil engineer, MBA from the Instituto Católico de Administración y Dirección de Empresas and a degree in Nuclear Technology from the Instituto Católico de Artes e Industrias. CEO of Corporación Financiera Alba, S.A. Also, he is a director at Banca March, S.A., Actividades de Construcción y Servicios, S.A., of Acerinox, S.A., of Bolsas y Mercados Españoles, S.A., and of sociedad Holding de Mercados y Sistemas Financieros, S.A.

He has spent his career in various engineering and financial companies, such as: Sener, Técnica Naval e Industrial, S.A. (1979-1980), Técnicas Reunidas, S.A. (1980-1987), Bestinver, S.A. (1987-1990), Corporación Borealis, S.A. (1990-1994) and Banco Urquijo, S.A. (1994-1998). He has held the post of director in numerous listed and non-listed companies in a wide range of industries.

María Rotondo

Born in 1964. Master degree in Economics and Business Administration at the Universidad Complutense de Madrid. Post graduate studies abroad (IESE, Wharton, NYU, Boston College) and in 2014-16 obtained the Certificado en Buen Gobierno Corporativo (Instituto de Consejeros y Administradores).

She has spent most of her career at Grupo Santander (1990-2016) where for the last ten years she was in charge of Global Communications, Media and Technology, leading important strategic transactions in the sector such as the Orange-Jazztel tender offer, the listing Telesites on the Mexican stock exchange, and others. For 15 years prior to that, she was an investment analyst for Santander SVB, rising to the post of Director of Analysis, Europe. She also worked for two years in New York at the Spanish Chamber of Commerce as a market analyst and at Extebank as a risk analyst.

From March until May 2017 she worked at Deloitte Financial Advisory, a company within the Deloitte Group, in the Technology, Media and Telecommunications practice as Managing Director, rendering advice on Mergers and Acquisitions, Equity Capital Markets, Restructuring and Forensics.

She is member of the Advisory Board for the Transformation with Purpose Fellowship at IE University and for Hotelab. She is a professor at the Instituto de Consejeros y Administradores (ICA) and BME (Bolsas y Mercados). She also performs strategic advisory work.

FUNCTIONS AND REGULATION OF THE COMMITTEE

In accordance with Article 31 of the Bylaws, Board Rules govern the duties and powers of the Committee in accordance with applicable law.

Article 18 of the Board Rules assigns the following duties to the Committee, in addition to those assigned by law:

- a) Ensure that the Board of Directors is able to present financial statements in the auditors' report to the Annual Meeting which do not contain limitations or reservations.

In those exceptional cases where a reservation might exist, the chairman of the Audit Committee as well as the auditors will clearly explain to the Shareholders the substance and the scope of said limitations or reservations.

- b) Supervise the Company's internal audit team to ensure that it properly manages internal information and control systems.

- c) As regards internal information and control systems: (i) supervise the process of drafting financial information regarding the Company and if applicable, the group, and ensure that it is complete. Specifically, review all normative requirements, the proper scope of consolidation and the entirety of applicable accounting rules; (ii) ensure that internal audit is independent; propose the selection, appointment, re-election and dismissal of the head of the internal audit service; propose the budget for such service; approve its goals and work plans, ensuring that its activities are focused primarily on material risks to the Company; receive periodic information on its activities; and verify that senior management considers the conclusions and recommendations contained in its reports; and (iii) establish and supervise measures whereby employees can confidentially report, and where possible and appropriate anonymously, any potentially significant irregularities that they detect in the Company, especially those of a financial or accounting nature.

- d) As regards the external auditor: (i) in the event of resignation of the external auditor, examine the circumstances which led to it; (ii) ensure that the compensation paid to the external auditor does not compromise its independence; (iii) propose that the Board file a Report of Material Fact to the *Comisión Nacional del Mercado de Valores* ("Spanish Securities Market Commission" or "CNMV") when there is a change of auditors, along with a statement relating any disagreements that arose with the outgoing auditor and, if applicable, the contents thereof; and (iv) ensure that the Company and the external auditor comply with applicable law regarding delivery of services other than auditing, regarding limits on the concentration of the auditor's work and, in general, rules regarding the independence of the auditors.

During fiscal 2017, the Committee carried out each and every one of the above mentioned powers and duties, including other matters which it considered appropriate for the exercise of its competencies and in the interests of the Company.

ACTIVITIES DURING FISCAL 2017

COMMITTEE MEETINGS

The Committee held 11 meetings during fiscal 2017, 10 of them regularly scheduled and 1 extraordinary. Average physical attendance at Committee meetings was 95.45% with the same percentage in the case of Independent Directors.

Meetings of the Committee are held with sufficient notice so that members may analyze all of the documentation and information relative to the matters to be taken up at each meeting, which information is delivered upon call to meeting.

Also, the Chairman of the Committee gives reports to the Board regarding the Committee's activities and the decisions adopted by it in each of its regularly scheduled sessions.

In order to properly plan and organize its work, the Committee develops and approves an Action Plan at the beginning of each fiscal year. The Action Plan for fiscal 2017 contained ten scheduled regular meetings along with the agenda for each meeting.

Upon invitation by the chairman, Executive Directors, senior managers and external auditors attend Committee meetings in order to discuss matters within their purview appearing on the agenda for meetings described in the current Report.

The principal matters discussed and analyzed by the Committee during fiscal 2017, and which fall within the Committee's area of responsibility, can be divided into the following areas:

REVIEW OF FINANCIAL INFORMATION

- Analyze and review the Annual Financial Statements and interim financial reports to be produced by the Board
- Supervise preparation and presentation of financial information to the CNMV
- Review of specific matters related to financial information which may impact the Company's results

EXTERNAL AUDIT

- Oversee audit of the Annual Financial Statements, interim financial statements and the ICFR
- Oversee implementation of recommendations of the external auditor
- Report on the Independence of the external auditor
- Authorization of services other than audit services as provided for in established procedures

INTERNAL AUDIT AND RISK MANAGEMENT

- Ensure the effectiveness of internal control of the Company
- Oversee compliance with recommendations of Internal Audit
- Spot audits as required by the Committee
- Review activities of Internal Audit and approve its annual Action Plan, budget, and Internal Operating Procedures
- Update of the Risk Map and the Risk Management Policy
- Creation of the Risk Coordination Unit

COMPLIANCE

- Update and supervision of controls
- Training: classroom and on-line and integration of TecnoCom personnel
- Oversight and update of criminal risks
- Oversight of the Model for Legal Risk Prevention and operation of the Canal Directo
- Update of the Code of Ethics and Legal Compliance and of the Model for Legal Risk Prevention
- Analysis of current significant open cases
- Annual review by the Committee of the Compliance Unit, of its director, and approval of its annual Action Plan and budget

EXTRAORDINARY MATTERS

- TecnoCom Tender Offer

REVIEW OF FINANCIAL INFORMATION

1. Review of the Company's Annual Financial Statements

The Committee, using the external auditor's report to aid in its analysis, reviewed the Management Report and the Individual and Consolidated Annual Financial Statements for fiscal 2016 during its meeting held in March, 2017 and before their preparation by the Board, giving a favourable opinion.

2. Review of Information Delivered Periodically to Markets and Supervisory Bodies

Before approval by the Board, the Committee reviewed the quarterly and semi-Annual Financial Statements published to the CNMV for fiscal 2017, verifying that their preparation was done using the same criteria as the Annual Financial Statements.

As regards the condensed consolidated interim financial statements, the Committee reviewed with the external auditor those matters which the auditor took into account in issuing its limited review report.

In carrying out its oversight duties, the Committee supervised preparation and integrity of financial information related to the Company and Consolidated Group and analysed compliance with legal requirements, proper scope of consolidation and appropriate application of accounting standards, the Committee made recommendations regarding the clarity, posting or presentation of some items.

In order to ensure timely compliance with the Company's obligations to present this information to the CNMV, the Committee met with the Company CFO to review matters related to periodic financial information.

EXTERNAL AUDIT

1. Audit Fees and Report Regarding Auditors' Independence

In discharging its duty to evaluate any issues that might put the independence of the external auditors at risk, the Committee reviewed and authorized the fees paid to the audit firm apart from those charged for preparation of the Annual Financial Statements. It also looked at the fees charged by the audit firm in terms of the auditors' overall revenues.

The fees charged by the current external auditors (Deloitte) in fiscal 2017 for all items are as follows:

	1000'S OF EUROS
AUDIT OF ANNUAL FINANCIAL STATEMENTS	1,830
OTHER SERVICES	379
TOTAL	2,209

As regards the audit of Annual Financial Statements for fiscal 2016, in compliance with applicable law, the Committee issued its annual report regarding the independence of the auditors before the drafting of the auditor's report for the fiscal year.

In order to compile this report, the Committee reviewed compliance with the following criteria:

- Verified that the auditor was not involved in any circumstance, relationship or situation that might compromise its independence.
- Analyzed the fees paid during the fiscal year as a percentage of its gross billings and came to the conclusion that the fees paid by Indra did not affect its independence in any way.

Additionally, Deloitte expressly stated that they had maintained their independent status by means of a letter dated 23 March, 2017.

The report regarding the independence of the auditors as well as the letter confirming independence referenced above were made available to the Shareholders upon call of the Annual Shareholders' Meeting, consistent with the provisions of Recommendation 6 of the Code of Good Governance for Listed Companies.

2. Oversight of the Financial Statement Audit Process

In fulfilling its role of guaranteeing compliance with the audit contract, during fiscal 2017 the Committee ensured that the opinion regarding the Annual Financial Statements and main portions of the audit report were drafted in a clear and accurate manner by supervising the audit process for the financial statements from the planning stage through development and to its conclusion. The Committee evaluated the progress and the results of the audit and the auditors' work, thoroughly examining the reports created by the external auditors as they related to:

- The final conclusions regarding the auditors' work on the Annual Financial Statements for fiscal 2016.
- The final audit report regarding fiscal 2016 individual and consolidated financial statements, issued without qualification or reservation.
- The report on recommendations for improvement in administrative procedures and internal control stemming from the fiscal 2016 audit of the Annual Financial Statements.
- Planning and preliminary work for the audit of Annual Financial Statements for fiscal 2017.
- The limited review report for the first half of fiscal 2017.
- The preliminary audit report for fiscal 2017 financial statements.

In order to make a proper evaluation of the above mentioned items, the Deloitte team members responsible for the audit of accounts for fiscal 2016 and 2017 met with the Committee seven times.

3. Evaluation of Compliance with the Recommendations Arising from the Audit of the Financial Statements

Pursuant to its responsibility for evaluating the response of the management team to the recommendations of the auditor, during fiscal 2017 the Committee reviewed implementation of the recommendations issued after the fiscal 2016 audit of the financial statements and confirmed that the majority had been satisfactorily resolved.

Additionally, the Committee reviewed implementation of means to improve organization, processes and information and control systems agreed to during 2016.

INTERNAL AUDIT, INTERNAL CONTROL, AND RISK MANAGEMENT

1. Internal Audit

The Committee is responsible for supervising the work of Internal Audit of the Company and reviewing the appointment and substitution of those responsible. Since fiscal 2014, management of Internal Audit reports directly to the Committee.

During fiscal 2017 the Committee supervised the work plan for the Internal Audit Department and approved its budget, the resources to be made available in order for the Department to do its work, and its Annual Audit Plan.

The head of Internal Audit made regular reports (ten times) to the Committee regarding progress of the Annual Audit Plan as well as work done in specific areas under her supervision.

The primary aspects of the Work Plan approved by the Committee can be divided into the following categories:

- Performance of audits intended to insure the reliability of financial information, with a focus on those accounting estimates with the most significant impact on Company assets, DPF, inventories and outstanding debt as well as review of relevant operational and management controls.
- The performance of audits designed to ensure a robust and effective Internal Control System (review of process design and testing of their effectiveness, including annual review of the ICFR).

- Follow-up of recommendations arising from the audits done in prior fiscal years, primarily through control and assurance activities regarding implementation of promised Action Plans.
- Improvements in internal processes and methodology.
- The performance of ad hoc audits (compliance audits and work requested by the Committee and/or Senior Management of the Company).

During fiscal 2017 the Head of Internal Audit carried out several internal projects to improve performance, among some of the most important:

- Development of an action plan for the development and improvement of Internal Audit's operations for the 2017-2020 period.
- Drafting of and Internal Audit manual which governs methodology for internal audits.
- Drafting of Internal Audit Bylaws. These bylaws were approved by the Committee on 18 December and later by the Board of Directors on 21 December 2017.
- Drafting of standard work papers for subsidiaries.
- Redesign of follow-up procedures for recommendations.
- Drafting of a Quality Plan for the department.
- Redesign of the ICFR model: update of the model, implementation of an executive role, update of the risk and control matrices, development of the GRC tool.
- Implementation of a systems audit function.

2. Annual Evaluation of Internal Control Over Financial Reporting (ICFR)

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

Indra, aware of the interest of markets and other interested parties, and in compliance with recommendations published by the CNMV in February 2010, began to submit its ICFR voluntary review in 2011 with the following primary goals:

1. Guarantee efficiency and security in the processes of preparing financial information in order to minimize the possibility of error.
2. Follow new regulatory requirements in internal control and corporate governance matters and quickly adopt best international practices.

The Committee periodically reviews established procedures in order to evaluate the effectiveness of internal control, specifically:

- Analyze the effectiveness of internal control over established procedures in the Company and its subsidiaries.
- Verify if potential deficiencies exist in internal control procedures and what response capability the Company has.
- Supervise and coordinate significant modifications made to internal controls as they relate to financial information.
- Review and verify that proper criteria are used in closing procedures for financial statements.
- Conduct a periodic review of corrective measures taken in response to weaknesses identified in audits.

As a result of this process and in order to improve transparency and the quality of public ICFR information issued by the Company to the markets, Company management publishes annually a description of its ICFR following the sixteen core indicators recommended in the CNMV document.

Additionally, since fiscal 2011 Indra has voluntarily submitted its ICFR to the Company auditor for evaluation. The auditor issues an annual ISAE 3000 report in which the auditor gives an opinion based on a reasonable degree of objective certainty under generally recognized auditing standards, whether the design and operation of the ICFR at Indra Group is effective or not upon close of the fiscal year.

The scope of the review during fiscal 2017 included the business units in Brazil, Chile, Colombia, Spain, Mexico, Italy, Norway, Saudi Arabia and Bahrain, the goal being review of the companies in each of the business units with the greatest impact considering a series of qualitative and quantitative factors, and comprised of 13 companies altogether. There were 48 Entity Level Controls defined as well as 191 transactional controls and 90 general IT controls, as well as assignment of responsibility for those controls at the Corporate and Business Unit levels.

During the fiscal year, the head of Internal Audit and Global Risks reported to the Committee regarding the scope of work evaluating ICFR of the Group and regarding the procedures, controls and methods making up the process which has been uniformly implemented the group as a whole. Finally, the Committee received a report on the results obtained from the analysis of the effectiveness of ICFR, in which it was concluded that the operation of its controls did not present material deficiencies or weaknesses.

3. Risk Management

The Committee is aware of the importance of managing risks that the Company faces in order to do adequate strategic planning and to reach defined business goals, primarily in a background of growing globalisation.

The first step in properly managing risks is to continually update the Company Risk Map. In order to accomplish this, in fiscal 2017 the Committee placed special emphasis on updating the Map.

The update process included results of evaluations made by senior managers at Indra and a heat map with probability and impact assessments using a top-down focus and oriented towards the principal risks inherent in Company strategy.

The Committee presented the updated Risk Map to the Board, which approved it. The risk universe used as the basis for drafting the map was later updated after approval of the 2018-2020 Strategic Plan.

As a supervisory measure, each of those responsible for key identified risks appears before the Committee on a rotating basis. Work has been done as well on definition of KRIs in order to measure principal risks.

Work has been done in redefining the methodology for quantitative evaluation of risks with the goal of obtaining more homogenous management models in each area. Additionally, qualitative risk measurement has been refined for non-quantifiable risks.

The head of Global Risks regularly reported to the Committee (9 times) regarding work done in areas of her responsibility.

During fiscal 2017, the *Unidad de Coordinación de Riesgos* ("Risk Management Unit" or "UCR") was created, a technical department supervised by Control Management with support from Global Risks, which exercises executive supervision and control functions as well as giving advice from within the Risk Management and Control System at Indra. Its creation was animated by the evaluation done by PwC for the Committee in 2016.

The fundamental mission of the UCR is to provide necessary technical support to the head of Global Risks in order to ensure adequate security for the risk management and control system of the Company by identifying, evaluating, quantifying and implementing follow-up mechanisms for Mitigation Plans executed by Risk Managers in accordance with the Global Risk Management System defined and approved by the Governing Bodies at Indra.

The Committee received reports during the fiscal year regarding advances and conclusions adopted by the UCR, which held eight scheduled meetings and one extraordinary meeting.

The principal activities of the UCR during the fiscal year were:

- Follow-up of critical projects
- Follow-up of R & D activities from a financial point of view
- Follow-up of development of the Risk Map
- Approval of the Risk Map before its presentation to the Executive Committee and to the Committee itself

During fiscal 2017 the Global Risks department worked intensely in refining the formal channels for reporting on risk identification, evaluation and management, with the goal of establishing a more efficient system which will ensure a proper flow of information to the Committee and other responsible bodies, especially for those risks which exceed tolerance levels.

Additionally, work is being done on developing the Governance, Risk & Compliance SAP tool.

Global Risks drafted a risk management manual for Indra within which normative procedures approved during the year are contained.

The Committee approved in December 2017 a work plan for the Global Risks department for 2018 with the ultimate goal of moving from a Defined risk management model to an Operational one in accordance with the Aon Risk Maturity Index. In order to provide sufficient resources to the department for carrying out scheduled work, its team was increased.

Finally, the Committee reviewed sections E and F of the Annual Report on Corporate Governance regarding internal risk management and control systems with the object that they reflect the features contained in the current Risk Policy.

With the goal of understanding and testing the adequacy and completeness of the process for producing financial information and the proper operation of internal control and risk management systems within the Company, the Committee met with various managers during the fiscal year in order to analyze those areas and aspects it considered necessary to review consistent with the Company Risk Map.

- **Project Analysis**

The Committee reviewed the status of projects identified as high risk, analyzing detailed information about clients, DPF and ETC of each of said projects. It also received a report regarding actions taken to minimize risks and regarding improvements to control and follow-up tools.

- **Tax Risks**

The Committee reviewed the Company Tax Risk Map and the existing control framework for each one of the risks.

Finally, the Committee reviewed the status of major projects currently underway.

- **Brazil**

The Committee received a report regarding developments in the most important areas, project status, and other salient points which were focused upon during the fiscal year.

The Committee reviewed and delivered a favourable report to the Board regarding adherence to the Special Tax Recovery Plan in Brazil after analyzing legal opinions and its economic and accounting impact.

- **Resources Management Unit**

The Committee received a report regarding the goals, performance and organization of the Resources Management Unit, charged with defining and executing human resources policies and procedures.

The Committee reviewed the fiscal 2017 goals and action plan for the Resources Management Unit.

- **Vulnerabilities in Internal Cybersecurity**

The Committee met with the heads of Corporate Resources and Information Systems of the Company who reported on the risk management situation in the area of information security and the major mitigation plans in place.

- **Procurement: Organization, Processes and Policies**

The Committee met with the head of Purchasing and Procurement, who gave an update on the action plan for the Procurement Unit presented to the Committee at its December 2016 meeting.

Regarding international implementation of the model, it was reported that it is in place in 91% of the subsidiaries in LATAM, with less progress in ASOMAF.

- **Accounting Criteria: IFRS 15 and 9**

The head of Control Management, Operations and Processes reviewed with the Committee the processes and evaluation criteria applied by the Company for assets, in particular intangible ones, and analyzed in detail the current accounting criteria applicable to certain areas. Additionally, the Committee received a report regarding the impact of IFRS 15 ("Revenue from Contracts with Customers") and IFRS 9 ("Financial Instruments") which became effective 1 January 2018.

COMPLIANCE

The Compliance Unit, pursuant to delegation by the Committee, is the body charged with carrying out its decisions and ensuring compliance with rules contained in the Legal Risk Prevention Model. To these ends, since April 2015 it has reported directly and exclusively to the Committee and performs the following tasks:

- Promote a culture of prevention and ensure distribution of the model's precepts
- Analyze legislative changes and developments which might affect the model
- Request information regarding changes in legal risks and preventative measures taken by the Company
- Propose verification of the model and updates it considers appropriate
- Manage communications received through the Canal Directo
- Propose work plans regarding supervision of the model

As an executive area for supervision and control, the Compliance Unit keeps the Committee informed about its activities. For this reason, the head of the Compliance Unit attended all of the meetings of the Committee.

The primary activities accomplished during fiscal 2017 were the following:

1. Updating of the Criminal Risk Prevention Model

The Compliance Unit, under the supervision of the Committee, during fiscal 2017 updated the Criminal Risk Prevention Model in Spain and in the international subsidiaries as a consequence of a periodic verification of follow-up and development of the Model. Said update was carried out with the goal of unifying the Codes of Ethics in place in Spain and the international subsidiaries, harmonizing rules of conduct with amendments to internal operating procedures in the Company, and introducing other changes to facilitate interaction between the Compliance Unit and other Company units.

2. Internal Training on the Criminal Risk Prevention Model

Once 90% of the team in Spain was trained in 2016, the Compliance Unit conducted training sessions in fiscal 2017 in the international subsidiaries, reaching 90% training of their teams.

3. Implementation of the Model in Grupo Tecnomcom

As a consequence of the Grupo Tecnomcom acquisition, the Compliance Unit performed various communication, follow-up and training activities during fiscal 2017 with the Tecnomcom Group professionals in both the domestic and international subsidiaries with the goal of substituting the Criminal Risk Management System with the Indra Criminal Risk Prevention Model.

4. Identification and Evaluation of Criminal Risks

During fiscal 2017 the Compliance Unit identified criminal risks in Spain and criminal as well as analogous administrative risks in Tier 1 international subsidiaries.

Additionally, a global methodology for assessment of criminal risks was implemented, the results of which were communicated by the Compliance Unit to Internal Audit and Global Risks in order that they be included in the Risk Map.

5. Procedures

The Compliance Unit, in collaboration with various departments within the Company, has drafted and/or reviewed the following procedures which form part of the Internal Operating Procedures at Indra:

- **Procedure for contracting with Business Consultants.** This includes additional controls to those already existing in the contracting phase, during contract execution, and in the process of payment to those providers. It also includes rules for "politically exposed persons" to whom additional controls apply.
- **Procedure for contracting with Strategic Advisors.** Contracting with these providers was regulated, establishing controls in the contracting phase, during contract execution, and in the process of payment to them. It also includes rules for "politically exposed persons" to whom additional controls apply.

- **Rules regarding Donations and Sponsorships.** Membership in, association with, and donations to foundations, associations and other similar entities. New quantitative and qualitative limits were introduced for requests and approvals of donations and sponsorships and regulation imposed for requests and approval of membership in or association with public organizations or any similar entity and amounts to be budgeted for such matters.

6. Activities Regarding Criminal Risk Prevention Controls

During fiscal 2017 the Compliance Unit carried out a review of the scope and effectiveness of the existing control map for prevention of criminal risk at the Company. Said controls were harmonized with internal rules which were also updated.

Finally, a self evaluation was done of the criminal risk controls by means of "Self Evaluation Statements" sent to those decision makers who were involved, with the goal of testing their design and effectiveness.

7. Meetings with Decision Makers for Organizational Areas of the Company

During the months of June and July 2017 the Compliance Unit held meetings with those in charge of the organizational areas of the Company with the goal of identifying challenges in applying the Criminal Risk Prevention Model and to detect training needs in identified subjects. The tasks arising from those detected needs will be carried out in fiscal 2018.

8. Membership in Different Working Groups for Unification of Compliance Criteria

The Compliance Unit participated in working groups within TEDAE (Spanish Association of Defence, Aeronautics and Space Technology Companies) and the Asociación de Emisores Españoles (Spanish Association of Traded Companies) in order to harmonize compliance criteria for the major companies in the sector.

9. Management of the Canal Directo

The Compliance Unit was placed in charge of management of communications received through the Canal Directo and delivered files as necessary. In 2017, the Canal Directo received 217 communications. This number of communications represents an increase of 110.68% over the number received in 2016 (103 communications).

10. Annual Report of the Compliance Unit and Work Plan for the next Fiscal Year

In accordance with the provisions of the Manual for Criminal Risk Prevention, in January 2018 the Compliance Unit issued an annual report of its activities.

OTHER ACTIVITIES

- **Investor Relations: Presentation and Activities with Analysts and Investors**

The Committee received a report from the Director of Investor Relations regarding proceedings during fiscal 2016 and 2017, results achieved, and goals reached.

The Committee reviewed the Action Plan and Communication Policy for Investors for 2017 and means of improving communication tools and channels.

In addition, the Committee actively participated in the Second Investor Day organized by the Company in November 2017.

- **Type and Scope of Communications with Regulators**

The Committee was informed regarding communications received by the Company from the CNMV, following up on matters contained within them and, when applicable, on responses to them.

During fiscal 2017 the Committee paid special attention to communications with the CNMV regarding the Tecnocon tender offer.

- **CNMV Technical Guide 3/2017 Regarding Audit Committees**

The Committee analyzed the content and the primary aspects of the Technical Guide 3/2017 from the CNMV regarding audit committees of entities of public interest, which was issued to offer principles and criteria for workings of audit committees, and gave a positive opinion of the level of compliance with the recommendations contained in it.

- **Evaluation of the Performance of the Audit Committee**

In February 2017 an evaluation of the performance of the Committee for fiscal 2016 was carried out as part of the annual evaluation of the Board.

The evaluation procedure was internal given that external collaboration occurs every three years, the last being for fiscal 2014. The process consisted of completion of a questionnaire regarding structure, composition and performance of the Committee by each individual member.

Said evaluation process resulted in a satisfactory evaluation of the performance and work quality of the Committee during the fiscal year analyzed.

The performance evaluation of the Committee for fiscal 2017 as well as that of the Board and the other committees will be done with the collaboration of an outside advisor.

- **Non- Routine Matters**

The Committee oversaw financial information contained in the Tecnocon prospectus registered with the CNMV and reviewed as well the contents of the section on risks and gave its unanimous approval to the Board that it be adopted.

The Committee also received a report regarding the integration plan for Tecnocon in Spain, LATAM and Portugal as well as the existing governance model and governing bodies, with the goal of overseeing said integration (Steering Committee, Integration Committee and various functional teams).

Finally, the Committee oversaw consolidation of Tecnocon, accounting criteria applied, and the most important adjustments to be made to the Tecnocon books. Goodwill calculation as confirmed by the Company's external auditor was reviewed as well as a first estimate of the Purchase Price Allocation.

FOLLOW-UP OF 2017 ACTION PLANS AND ANTICIPATED ACTIVITIES FOR 2018

In accordance with the Action Plan of the Committee for 2018 as approved by it, the Committee plans to meet ten times in regular session during which, in addition to reviewing matters which are of a recurring nature every year, it will continue to pay special attention to matters related to risk management, bid and project management, and application criteria for measuring revenue recognition, DPF, inventory, clients, and intangibles.

Additionally, matters regarding the integration of TecnoCom will be reviewed, as well as Company reorganization announced during the 2nd Investor Day, and improvements to be implemented in accordance with the CNMV 3/2017 Technical Guide for Audit Committees.

Finally, non-financial information to be included in the management report in accordance with *Real Decreto-ley 18/2017, de 24 de noviembre* will be analyzed in detail.

CONCLUSIONS

The Committee has verified that it adequately attended to all of the matters contained in its Action Plan for fiscal 2017.

Additionally, it believes that its performance complies with current recommendations in force.

For all these reasons, the Committee has unanimously resolved to submit the present Activities report to the Board of Directors to be taken into account during its process of evaluation of the Board and its Committees for 2017 scheduled for March.