



# 2019 Activity Report of the Audit and Compliance Committee

January 2020

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# 1 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 (the “Committee”) has been part of the framework of this corporate governance system at Indra since 1999. Its responsibilities, composition and operating rules have at all times been governed by the Regulations of the Board of Directors (“Board Rules”) and the Bylaws. The Audit and Compliance Committee has been quite active in the areas under its purview, as evidenced by the information on corporate governance which the Company annually makes public.

The mandate and procedures of the Committee have been continuously updated to keep them in compliance with multiple changes in the law as well as with changing recommendations in the field of corporate governance. Modifications of Company internal operating procedures during the last few years have faithfully reflected those changes.

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

The present Operations Report was issued by the Audit and Compliance Committee of Indra at its meeting held 17 February 2020.

## 2 Composition, appointment and profile of members

In accordance with the Board Rules and the Bylaws, the Committee is composed exclusively of Non-Executive Directors whose membership is to be between three and six. The composition of the Committee as of 31 December 2019 was as follows:

	Class	Position	First appointment date
Enrique de Leyva	Independent	Chairman <sup>(3)</sup>	25 June 2015
Santos Martínez-Conde	Proprietary <sup>(1)</sup>	Member	27 June 2013
Maria Rotondo	Independent	Member	27 July 2017
Ignacio Santillana	Independent	Member <sup>(4)</sup>	18 December 2014
Miguel Sebastián	Proprietary <sup>(2)</sup>	Member	31 January 2019
Isabel Torremocha	Independent	Member	24 June 2019

- (1) Nombrado a propuesta de Corporación Financiera Alba, S.A
- (2) Nombrado a propuesta de la Sociedad Estatal de Participaciones Industriales –SEPI-
- (3) Presidente desde julio de 2019
- (4) Presidente desde junio de 2015 hasta junio 2019

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 are members of the Committee, four are Independent.

Mr. Enrique de Leyva was appointed chairman of the Audit and Compliance Committee in place of Mr. Ignacio Santillana during fiscal 2019 because Mr. Santillana had served four years in office as chairman of the Committee, and his replacement was mandated by law (section 529.2 (14) of the Ley de Sociedades de Capital (“Spanish Corporations Law” or “LSC”). Also, Mr. Miguel Sebastián and Ms. Isabel Torremocha were appointed members of the Audit and Compliance Committee, replacing Mr. Aparicio and Mr. Lada respectively.

The qualitative composition of the Committee complies 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 description of the profile of each member of the Committee is provided below. Such information is available and continuously updated on the corporate website ([www.indracompany.com](http://www.indracompany.com)):

### **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.

He is currently a member of the Board of Directors of Almirall, S.A.

### **Santos Martínez-Conde**

Born in Santander in 1955. Civil engineer, MBA from the Instituto Católico de Administración y Dirección de Empresas and a degree in Nuclear Technology from the Instituto Católico de Artes e Industrias. CEO of Corporación Financiera Alba, S.A. Also, he is a director at Banca March, S.A., Actividades de Construcción y Servicios, S.A., Acerinox, S.A., Bolsas y Mercados Españoles, S.A., Sociedad Holding de Mercados y Sistemas Financieros, S.A., and CIE Automotive, 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. Masters 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 of Telesites on the Mexican stock exchange, and others. For fifteen 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 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 a 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 and Bolsas y Mercados. She also performs strategic advisory work.

### **Ignacio Santillana**

Born in 1948. Ph. D in Economics (1978) from Indiana University 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 an 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 important posts held: chairman of Nokia Spain and its advisory committee; director of Banco Gallego, and member of the advisory board of Accenture, Eptisa and Fundación Albeniz.

### **Miguel Sebastián**

Born in 1957 in Madrid, he received his business and economics degree from the Universidad Complutense, a Ph.D in economics from the University of Minnesota (USA) and a Doctorate from the Universidad Complutense de Madrid.

In academia, he has been deputy director of the magazine "Moneda y Crédito" and a member of scientific committees for the "Revista Española de Economía," of the Fundación de Estudios de Economía Aplicada - and of NOMISMA. He is Professor of Fundamentals of Economic Analysis in the School of Economics at Universidad Complutense de Madrid.

He has worked in the General Planning Office of the Ministerio de Economía y Hacienda ("Treasury") and in the Research Service of the Bank of Spain. In 1996 he was appointed Chief Economist (Director of the Research Department and Deputy Director-General) of Banco Bilbao Vizcaya (BBV) until 2003. Mr. Sebastián has consulted for several multilateral organizations. He has served as a member of the Executive Committee of the International Conference of Commercial Bank Economists as well as the Board of Directors of AEEFI ("Spanish Association of International Economics and Finance"). He was a member of the Editorial Board of "Expansión" and of "Actualidad Económica". He has worked on several projects with the media outlets El Mundo, 20minutos, Alnavío.com and El Independiente. He currently publishes a weekly column in La información.com and works in collaboration with GLG Research.

In the realm of politics, he was coordinator of the Economic Program for the Spanish Socialist Party (PSOE) in the 2004 General Election and Director of "Economistas 2004". In 2004, he was appointed Director of the Economic Office of the President of the Government (government ministry level). In 2005, he was appointed Coordinator of the National Reform Program of Spain ("Sr. Lisboa"). In December 2006 he was nominated as the PSOE candidate for mayor of Madrid. In April 2008, he was appointed Minister of Manufacturing, Tourism and Commerce for the Spanish Government during the 9th Legislature (December 2011).

### **Isabel Torremocha**

Degree in Chemistry from the Universidad Autónoma de Madrid. Postgraduate work with Specialisation in Plastics and Rubber from the Consejo Superior de Investigaciones Científicas, Leadership Program of the IMD Business School, Executive Management Program from the IESE Business School and Corporate Finance from the IE Business School.

Ms. Torremocha began her career at Philips Iberia, then joined Andersen Consulting (now Accenture) in 1991 where she spent her career in the Telecommunications, Media and High-Tech sector. At Accenture she was Managing Director and member of the Board of Directors of Accenture España. At the end of her tenure at Accenture, as Director of Transformation Opportunities, Ms. Torremocha spearheaded the creation and development of opportunities related to strategic transformation in the areas of information technology, outsourcing of business processes and digital transformation in Spain, Portugal and Africa.

Prior to this, she held international positions, most notably Director of Operations in Europe, Africa and Latin America, with responsibility for the implementation of the business strategies in these regions. She has also been responsible for diversity and equality in the Telecommunications, Media and High Technology division for Europe, Africa and Latin America, defining plans for the fast-tracking of professional women in managerial positions and succession plans.

She is currently an Independent director at Repsol, S.A.

### 3 Regulation and functions of the Committee

In accordance with Article 31 of the Bylaws, the duties and powers of the Committee are governed by Board Rules, subject always to applicable law.

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

- a) Supervise the process of drafting and presentation of Company and Group financial information appearing in the annual and other periodic financial statements made public, paying attention to regulatory requirements, properly defined scope of consolidation and the correct application of accepted accounting principles.
- b) Ensure that the Board of Directors is able to present the financial statements to the Annual Shareholders' Meeting without reservations in the Auditor's Report.
- c) In those exceptional circumstances where there are reservations, the chairman of the Audit Committee as well as the auditors will clearly explain to the Shareholders the substance and scope of said limitations or reservations.
- d) Supervise the composition, duties and performance of the areas of internal audit and control and management of risks as well as compliance: (i) ensuring their independence; (ii) proposing the selection, appointment, compensation and dismissal of the heads of those areas; (iii) approving budgets and annual work plans; and (iv) verifying that senior management takes into account the conclusions and recommendations of their reports.
- e) Establish and supervise the operation of a mechanism that allows employees to confidentially and anonymously report potentially significant irregularities of which they become aware within the Company, especially financial and accounting ones.
- f) As regards the external auditor: (i) in the event of resignation of the external auditor, examine the circumstances motivating it; (ii) ensure that the external auditor's compensation does not compromise either quality or independence; (iii) ensure that the Company communicates any change of auditor as a material event to the Comisión Nacional del Mercado de Valores ("Spanish Securities Market Commission" or "CNMV"), and accompanies such communication with a statement regarding potential significant conflicts with the auditor and, when they exist, their substance; (iv) ensure that the external auditor meets annually with the entire Board of Directors in order to report on its work and regarding progress of accounting activities and risks faced by the Company; and (v) ensure that the Company and the external auditor respect applicable rules regarding provision of services other than auditing services, the scope of the engagement and, generally, all other norms regarding the independence of the auditors as well as authorizing engagement of said services.
- g) Inform the Board regarding corporate and structural changes, analysing their economic and accounting impacts and, in particular and where applicable, any proposed exchange ratio.
- h) Take decisions within its purview as designated by internal programmes and procedures in the area of compliance and competition as assigned by the Board.

Upon establishment of a Sustainability Committee during fiscal 2019, the functions of the Audit and Compliance Committee were redefined, as the Sustainability Committee was assigned the



review and coordination of the process of preparation and publication of non-financial information as well as the review and evaluation of risk management and control systems in non-financial matters related to the Company's sustainability performance, without prejudice to the two Committees being logically coordinated.

Upon amendment of the Board Rules made necessary to reflect creation of this new Committee, Article 18 on the competences of the Audit and Compliance Committee was amended in order to: (i) reflect that the Internal Audit, Global Risk and Compliance Unit areas form an organizational unit reporting to the Audit and Compliance Committee; (ii) expressly incorporate the Audit and Compliance Committee's competence to inform the Board on corporate and structural changes (Recommendation 44 of the Code of Good Governance of Listed Companies); and (iii) define the decision-making powers of the Audit and Compliance Committee regarding internal compliance and competition programmes and procedures.

During fiscal 2019 the Audit and Compliance Committee fulfilled each and every one of the above powers and duties and addressed additional issues that were deemed appropriate for the exercise of its competencies and in the interests of the Company.

## 4 Activities in fiscal year 2019

During fiscal 2019 the Audit and Compliance Committee held ten regular meetings. The average attendance rate of its members at Committee meetings was 100%.

Meetings of the Committee are held with sufficient notice so that members may analyse 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 2019 contained ten scheduled regular meetings along with the agenda for each meeting.

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

The principal matters discussed and analysed by the Committee during fiscal 2019, and which fall within the Committee's area of responsibility, can be divided into the following areas:



## EXTERNAL AUDIT

- Oversee audit of the annual financial statements, interim financial statements and the ICFR
- Oversee implementation of recommendations of the external auditor
- External auditor evaluation and annual report on its independence
- Proposal for re-election of auditors and approval of the scope of services and fees
- Authorization of services other than audit services in accordance with

## REVIEW OF FINANCIAL AND NON-FINANCIAL INFORMATION TO BE INCORPORATED INTO FINANCIAL STATEMENTS

- Analysis/review of periodic financial reports issued by the Board
- Supervision of the process of preparing and submitting financial information to the CNMV
- Review of specific aspects related to financial information that may have an impact on the Company's results
- Analysis of the reporting criteria for non-financial information and the contents of the corporate responsibility report
- Analysis of the scope of review of non-financial information

## INTERNAL AUDIT AND GLOBAL RISK

### Internal Audit

- Supervision of the effectiveness of the Company's risk management, control and governance procedures
- Audits with a focus on risk analysis in processes, operations, compliance and systems
- Follow-up on recommendations
- Review and update of the ICFR model

### Risks

- Supervision of the development of the Risk Map and proposals to update the General Policy on Control and Management, Tax Policy and other policies
- Supervision of follow-up reports on risk mitigation plans
- Supervision of proposals for appearance of risk owners

## COMPLIANCE

- External reviews of the Criminal and Internal Risk Prevention Model regarding effectiveness of controls
- Implementation of areas of improvement and recommendations proposed by AENOR after obtaining UNE 19601 Certification
- Updating and tracking of controls and the Criminal Risk Map
- Promotion and monitoring of internal and external training
- Monitoring the Model for Prevention of Criminal Risks and the operation of the Canal Directo
- Development and formalisation of a specific Competition Compliance Model
- Analysis of relevant ongoing cases

## 4.1 Review of Financial and Non-Financial Information

### 4.1.1 Review of the Company's annual financial statements

On the basis of the report of the external auditor, the Audit and Compliance Committee reviewed at its meeting in March 2019 the Management Report and the individual and consolidated annual financial statements for fiscal 2018 prior to their issuance by the Board of Directors, giving its favourable opinion.

### 4.1.2 Review of periodic information to be provided to markets and regulatory bodies

Prior to its approval by the Board of Directors, the Audit and Compliance Committee reviewed the quarterly and semi-annual financial information to be communicated to the CNMV for fiscal 2018, verifying that their preparation used the same criteria as the annual financial statements.

This review encompassed both the information contained in the official CNMV forms and the reports that the Company submits to the CNMV upon publication of quarterly results, verifying that the data contained in them are consistent, and analysing the reasonableness of the criteria applied as well as the accuracy of the numbers.

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 regarding the creation of Company and consolidated Group financial information and their integrity, and regarding review of 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. To this end, the Committee met with the Company CFO at all meetings for review of matters related to periodic financial information, and the Board approved the form of said information in a timely manner.

### 4.1.3 Non-financial information

The Committee reviewed the criteria to be followed for emission of non-financial information after publication of Ley 11/2018; choosing to maintain the Corporate Social Responsibility Report as a Non-Financial Reporting Statement, the content of which was reviewed to ensure that it met all of the new legal requirements.

The Audit and Compliance Committee also reviewed the verification report for the Corporate Social Responsibility Report issued by Deloitte and the procedures applied, recommending approval by the Board.

## 4.2 External Audit

### 4.2.1 Auditors' fees and report on their independence

In discharging its duty to evaluate any issues that could jeopardize the independence of the external auditors and in accordance with the internal procedure in force, the Audit and Compliance Committee reviews and authorizes fees for services other than the audit of annual financial statements prior to contracting them. It also periodically monitors the cumulative amount of such fees to verify that the amounts are not too high, comply with legal limits, and do not compromise the auditor's independence.

The fee amounts paid to the current external auditors (Deloitte) during fiscal 2019 for all items are as follows:

	Thousands of Euros
Audit of financial statements and limited semi-annual review	1,978
Other verification services	134
Tax services	35
Other services	-
<b>TOTAL</b>	<b>2,147</b>

With regard to the audit of the annual financial statements for fiscal 2018, in accordance with the provisions of applicable law, the Audit and Compliance Committee issued the annual report on the independence of the auditors prior to the audit report for the fiscal year, expressing its favourable opinion regarding their independence and specifically addressing services other than the audit provided during the fiscal year, which in no case compromised said independence.

Deloitte also issued express confirmation of the maintenance of its independence by letter dated 22 March 2019.

The report on the independence of the auditors was made available to Shareholders upon call of the Annual Shareholders' Meeting, in accordance with Recommendation 6 of the Code of Good Governance for Listed Companies.

### 4.2.2 Oversight of the financial statements audit process

In fulfilling its role of regularly gathering information on execution of the audit process of annual financial statements, during 2019 the Audit and Compliance Committee oversaw the entire process from its planning, development and execution to its conclusions. The Committee evaluated the development and results of the audit and the auditors' work, analysing in depth the reports created by the external auditors as they related to:

- Final conclusions regarding the auditors' work on the annual financial statements for fiscal 2018.

- The final audit report of fiscal 2018 individual and consolidated financial statements, issued without qualification or reservation.
- The report on recommendations for improvement in administrative and internal control procedures resulting from the fiscal 2018 audit of annual financial statements.
- The planning and preliminary work for audit of annual financial statements for fiscal 2019.
- The limited review report for the first half of fiscal 2019.
- The Preliminary Audit Report of annual financial statements for 2019.

For the proper assessment of these items, the Deloitte team members responsible for auditing accounts met with the Committee seven times during the fiscal year.

#### 4.2.3 Evaluation of compliance with recommendations arising from the audit of financial statements

Under its responsibility to evaluate the management team's responses to the recommendations issued by the auditor, the Committee reviewed implementation of the recommendations issued following the audit of the annual financial statements for 2018.

#### 4.2.4 Evaluation and re-election of the external auditor

The Audit and Compliance Committee reviewed the external auditor's performance for the period 2016-2018 and how it contributed to the quality of the audit and the integrity of financial information. This evaluation was considered in the deliberation on the re-election of Deloitte, S.L. as auditor for Indra and its Consolidated Group. The Committee considered that its performance during the initial period (2016-2018) for which they were appointed was guided by principles of independence and professionalism, and proposed to the Board it recommend re-election for three more years (2019-2021) to the Annual Shareholders' Meeting, in accordance with applicable law and internal regulations. This proposal was approved at the Annual Shareholders' Meeting held 24 June 2019.

### 4.3 Internal Audit, Internal Control and Risk Management

#### 4.3.1 Internal Audit

The Committee is responsible for overseeing the operation of the Company's Internal Audit and for reviewing the appointment and replacement of its manager. Since fiscal 2014 the Internal Audit Department has reported directly to the Audit and Compliance Committee.

During fiscal 2019, the Audit and Compliance Committee supervised implementation of the work plan for the fiscal year and approved the budget, human resources plan, strategic plan 2020-2022 and work plan for fiscal 2020.

The Director of Internal Audit regularly reported to the Committee (ten times) regarding progress of the Annual Audit Plan as well as work carried out in different areas under her supervision.

The audits carried out during 2019 primarily covered:

- Risks associated with compliance, mainly ICFR audits, accounting regulations, (IFRS 16) and third-party risks.
- Risks associated with operations, mainly risks associated with programme and operations management.
- Risks associated with systems, mainly risks associated with personal data, security in critical applications, controls in systems relevant to financial information processing (ICFR), and secure software development.
- Risks associated with processes, mainly audit of subsidiaries, newly acquired companies, outsourcing, procurement, intellectual property, subsidies and key personnel.

Among the projects aimed at improving internal control, the Committee was informed regarding follow-up of audit recommendations, maintenance and evolution of the ICFR model and coordination with other functions (primarily Risk, Compliance, Legal Advice, Systems, and Process and Control management).

The Committee oversaw implementation of projects aimed at improving the Internal Audit function through automation and streamlining of the audit process; exploitation of big data analytical tools to provide greater confidence in the results of trial audits; and increase in technical capacity of the department through continuous training. The Committee also approved contracting external quality assessment of the Internal Audit area to be carried out every 5 years.

The Audit and Compliance Committee is responsible for overseeing the effectiveness of corporate internal control as it relates to the process of creation and presentation of regulated financial information, relying on the Internal Audit Department.

Conscious of the interest of markets and various stakeholders in these aspects, and in accordance with recommendations published by the CNMV in February 2010, beginning with fiscal 2011 Indra began to submit to a voluntary review of its ICFR with the following objectives:

- Guarantee efficiency and security in the processes of preparing financial information in order to minimize the possibility of failure.
- Meet new regulatory requirements for internal control and corporate governance and quickly adopt international best practices.

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

- Analyses the effectiveness of internal controls of processes implemented in the Company and its subsidiaries.
- Verifies if potential deficiencies exist in internal control procedures and what response capability the Company has.
- Monitors and coordinates significant changes to internal controls linked to financial information.
- Reviews and verifies that proper criteria are applied in closing procedures for financial statements.

- Conducts 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.

During the fiscal year the Audit and Compliance Committee was informed about 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 throughout the group. Finally, the Committee received a report on the results obtained from the analysis of the effectiveness of ICFR, in which it was concluded that the operation of its controls did not present material deficiencies or weaknesses.

#### 4.3.2 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 an environment of increasing globalization.

In this sense the mission of the Global Risks function is to create a framework that is conducive for the Company to anticipate, prioritize, manage and track the portfolio of risks that impact it. To this end, the Risk Monitoring System is under constant review as well as formalization and systematization of the criteria for its management.

The Committee is responsible for overseeing the operation of the Company's Global Risks function and for reviewing the designation and replacement of its director. Since 2014 the Global Risks Department has reported directly to the Audit and Compliance Committee.

The activities of the Global Risks function are regularly submitted to the Risk Coordination Unit and the Audit and Compliance Committee for oversight.

The Committee supervised implementation of the work plan for fiscal 2019 and approved Global Risks' budget, HR Plan, and work plan for fiscal 2020.

The Committee periodically monitors the action plans established according to defined risk factors, with corresponding semi-annual follow-up reports for mitigation plans presented to the Committee.

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 analyse those areas and aspects it considered relevant taking into account the Company's Risk Map, the most important being: (i) technological expertise and productivity of both IT and T&D; (ii) quality and customer satisfaction; (iii) information security; (iv) privacy; (v)

risks and opportunities arising from climate change; (vi) segregation of business into subsidiaries; (v) key personnel; and (vi) dual use goods.

The Committee also reviewed: criteria for reporting risks to the various stakeholders and the role of the Global Risk Department in that reporting; the strategy for monitoring the principal risks; inclusion of indicators related to specific risks (internationalisation, ESG, reputational); the updating of the Company's Risk Map; and General Risk Control and Management Policy, reporting favourably to the Board of Directors for its approval.

Regarding tax risk management, the Committee was informed about the tax strategy, organizational chart and new structure of the tax area as well as external advisors currently collaborating with Indra in tax matters.

The Committee reviews sections E and F of the Annual Corporate Governance Report on Internal Risk Control and Management Systems in order to verify that it reflects the items contained in the current Risk Policy.

In January 2020 the Audit and Compliance Committee approved the annual report of Internal Audit and Global Risk activities for fiscal 2019.

## 4.4 Compliance

The Compliance Unit is responsible for ensuring compliance with the norms included in the Criminal Risk Prevention Model. Since April 2015 it has reported directly to the Audit and Compliance Committee, performing the following functions:

- Promoting a preventive culture and ensuring dissemination of the principles of the Model
- Analysing legislative changes and developments that may affect the Model
- Gathering information on the evolution of criminal risks and prevention measures adopted by the Company
- Proposing verification of the Model and updates it deems appropriate
- Managing communications received through the "Canal Directo"
- Proposing a work plan for Model oversight

During fiscal 2019 the Committee oversaw implementation of the Compliance Unit work plan for the fiscal year and approved its annual budget, HR plan and work plan for fiscal 2020.

The Compliance Unit Director gave a report at every Audit and Compliance Committee meeting on the progress of the Work Plan, progress of active cases, and operation of the Canal Directo.

The Committee oversaw various initiatives in order to ensure the robustness of the Indra Compliance System: (i) updating the Manual for the Prevention of Criminal Risks (approved by the Board of Directors); (ii) protocol for acceptance, investigation and resolution of Complaints called "Compliance Unit Action Protocols" (approved by the Board of Directors); (iii) the annual renewal of the AENOR Certification of the Management System for Criminal Compliance and receipt of the Anti-Bribery Management System Certification in Peru; (iv) various training and



communication initiatives on the Criminal Risk Prevention Model for Indra professionals and Board members; (v) internal and external communication plan; (vi) review and update of the criminal risk maps for Spain, Argentina, Brazil and Peru (approved by the Audit and Compliance Committee); (vii) drafting and updating of internal procedures, regulations and policies; and (viii) periodic review of the scope and effectiveness of the control map for the prevention of hypothetical criminal risks at the Company.

The Committee also supervised the development and formalization of a Risk Prevention Model in Anti-Trust Law and the Catalogue of Anti-Competitive Risks, both approved by the Board of Directors and both of which complement measures already taken by the Company in relation to the prevention of collusive practices.

In January 2020 the Audit and Compliance Committee approved the annual Compliance Unit activities report regarding the Criminal Risk Prevention Model and the Anti-Trust Risk Prevention Model for fiscal 2019.

## 4.5 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 2018, results achieved, and goals reached.

The Audit and Compliance Committee reviewed the Action Plan and the Investor Communication Policy for 2019 and discussed improvement of communication channels and tools.

### ➤ Nature and scope of communications with regulators

The Committee receives reports on communications sent to the Company by the CNMV, monitoring the issues that give rise to them and analysing any responses to such communications.

### ➤ Oversight of the Company's legal affairs

The Committee continuously and carefully monitored developments throughout the fiscal year of the criminal investigation 85/2014 known as "Operación Púnica".

### ➤ CNMV Technical Guide 3/2017 on Audit Committees

The Audit and Compliance Committee follows the essence and relevant portions of the Technical Guide 3/2017 for audit committees of public interest entities approved by the CNMV, which was issued to offer principles and criteria for the workings of audit committees in those organizations, positively assessing the level of compliance with the recommendations established therein.

### ➤ Evaluation of the performance of the Audit and Compliance Committee

An evaluation of the performance of the Committee for fiscal 2018 was carried out in March 2019 as part of the annual evaluation of the Board.

The evaluation procedure was internal, since typically external collaboration is available only every third year, and the last was performed for the 2017 fiscal year (conducted in 2018). The process consisted of completion of a questionnaire on general issues (structure, composition, methods, quality of information, etc.), working dynamics and evaluation of its members.

This evaluation process concluded with a satisfactory assessment of the performance and quality of the Audit and Compliance Committee's work during the fiscal year under review.

## 5 Follow-up of 2019 Action Plans and Plans for 2020

In accordance with the Committee's 2020 Action Plan as approved of by it, the Audit and Compliance Committee plans to hold ten regular meetings at which, in addition to reviewing matters of a recurring nature every year, it will continue to pay special attention to matters related to the application of appropriate valuation criteria for measuring revenue recognition, DPF, inventory, clients, intangibles and contingencies; oversight of critical projects; and oversight of the Company's main responsibilities.

## 6 Conclusion

The Committee has verified that it adequately attended to all of the matters contained in its Action Plan for fiscal 2019.

Additionally, it believes that its performance complies with all regulations and substantially with current recommendations.

For all these reasons, the Committee has unanimously resolved to submit the present Operations Report to the Board of Directors to be taken into account during its process of evaluation of the Board and its Committees for 2019.

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