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Management report 2016

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Management Report

1. HIGHLIGHTS OF 2016

Order Intake increased by +6% in local currency in 2016 (+4% in reported terms):

- The book-to-bill ratio (the ratio of orders to sales) increased in 2016 (1.01x vs. 0.93x in 2015).

- IT orders rose by +12% in the year, boosted by the two-digit growth in Energy & Industry and Financial Services.

Revenues totalled EUR 2,709 million in 2016, down -3% in local currency and -5% in reported terms.

EBITDA totalled EUR 229 million in 2016, as compared with EUR -556 million in 2015, with EBITDA margin (EBITDA as a percentage of sales) growth of 9% in the year, vs. -20% in 2015.

The EBIT margin (EBIT as a percentage of sales) was 6% in 2016, a substantial improvement on the -23% reported in 2015, due to the higher direct margin on projects in progress, the efficiency plans, provisions recognised in 2015 and a fall in onerous contracts:

- EBIT totalled EUR 162 million in 2016, as compared with EUR -641 million in 2015.

- The contribution margin (sales less direct and indirect costs) was 14% in 2016, vs. 9% in 2015.

Particularly noteworthy was the cash generated in the year (EUR +184 million), due to the strong improvement in cash flows from operating activities and working capital management, and despite cash outflows due to workforce restructuring processes and onerous contracts:

- There was a significant decrease in net Debt (-25%) with respect to December 2015 to stand at EUR 523 million at 2016 year-end, representing leverage of 2.3 times the EBITDA for the last twelve months.

The Group achieved a net profit of EUR 70 million in 2016, as compared with the loss of EUR -641 million posted in 2015.

Main Figures	2016 (€M)	2015 (€M)	Variation (%) Reported/Curr.Local
Order Intake	2.744	2.651	4/6
Revenues	2.709	2.850	(5)/(3)
Backlog	3.129	3.193	(2)
Gross Operating Profit (EBITDA)	229	(556)	(141)
EBITDA margin	9%	(20%)	NA
Net Operating Profit (EBIT)	162	(641)	NA
EBIT margin	6%	(23%)	29pp
Net profit	70	(641)	NA
Net Debt Position	523	700	(25,3)
Free Cash Flow	184	(50)	NA
Basic EPS(€)	0,427	(3,913)	NA

2. ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Statement of profit or loss

Consolidated statement of profit or loss	2016	2015)
Revenue	2.709	2.850
In-house work on non-current assets	23	34
Other income	40	52
Changes in inventories of finished goods and work in progress	(13)	(100)
Materials used and other supplies	(668)	(841)
Staff costs	(1342)	(1632)
Other operating expenses	(519)	(799)
Other gains or losses on non-current assets	(2)	(121)
Depreciation and amortisation charge	(68)	(85)
Profit (Loss) from operations	**162**	**(641)**
Contribution margin	**378**	**263**
Finance income	6	1
Finance costs	(46)	(59)
Other net financial losses	(0)	(5)
Financial loss	**(39)**	**(64)**
Result of companies accounted for using the equity method	2	(0)
Profit (Loss) for the year	**124**	**(706)**
Income tax	(54)	64
Profit (Loss) for the year	**70**	**(642)**
Profit (Loss) attributable to the Parent	**70**	**(641)**
Profit (Loss) attributable to non-controlling interests	0	(1)

- Revenue totalled EUR 2,709 million in 2016, down -3% in local currency (or -5% in reported terms). The T&D vertical market recorded positive growth (+1% in local currency, unchanged in reported terms), while the IT vertical market saw a -5% drop in local currency (-8% in reported terms), affected by industry and geographical factors, as well as by the seasonality of one of its businesses (Elections).

- Group work on non-current assets dropped from EUR 34 million in 2015 to EUR 23 million in 2016.

- The main operating expenses fell with respect to the preceding period, mainly as a result of the cost optimisation plans implemented by the Group, provisions recognised in 2015 and lower sales:

    - Staff costs amounted to EUR 1,342 million in 2016 (2015: EUR 1,632 million), reflecting the lower indemnity payments paid in 2016 with respect to the preceding year and the lower headcount.

    - Materials used and other supplies (EUR 668 million in 2016 vs. EUR 841 million in 2015) and other operating expenses (EUR 519 million vs. EUR 799 million) decreased due to the lower sales volume, reduced subcontracting and the implementation of cost optimisation plans.

- The contribution margin (sales less direct and indirect costs) was 14% in 2016, vs. 9% in 2015 (+5%):

    - The T&D (Transport & Traffic and Defence & Security) contribution margin rose by +4% to 19% in 2016 (vs. 15% in 2015) as a result of the improved operations at Defence & Security and despite the restructuring process in progress in the Transport & Traffic segment.

    - The IT contribution margin (10%) was 5% higher than in 2015 (5%), due to the losses on certain projects in 2015 (mainly in Brazil, in the Financial Services and Public Administrations & Healthcare vertical markets) and the resource optimisation programmes carried out during the year.

- EBITDA totalled EUR 229 million in 2016, as compared with EUR -556 million in 2015, with EBITDA margin (EBITDA as a percentage of sales) growth of 8.5% in the year, vs. -19.5% in 2015.

- The depreciation and amortisation charge amounted to EUR 68 million in 2016, as compared with EUR 85 million in 2015 (-21%), due to the effect of the reduction in the amounts recognised in profit or loss in connection with grants for R&D projects. Excluding this impact, the depreciation and amortisation charge would have been similar to that for the previous year.

- The favourable evolution of the problematic projects provisioned in 2015, the efficiency plans and the relative improvement in the profitability of the projects in progress all contributed to the additional upturn in the EBIT margin. As a result, EBIT totalled EUR 162 million in 2016, with an EBIT margin of 6.0% (2015: -22.5%).

- The financial loss dropped from EUR -64 million in 2015 to EUR -39 million in 2016, due mainly to the lower relative importance of borrowings in Brazil.

- The income tax expense amounted to EUR 54 million, equivalent to a tax rate of 43%, as a consequence, inter alia, of the limitations on the recognition of tax benefits relating to the losses incurred in certain regions (mainly in Brazil), the non-taxation of the losses in Bahrain due to the related tax legislation, the reversal of tax loss carryforwards recognised by the subsidiary Prointec, S.A.S. amounting to EUR 3.8 million and the tax effect of the liquidation of certain subsidiaries.

- The profit for the year totalled EUR 70 million, in contrast to the loss of EUR -641 million incurred in 2015.

Statement of financial position and statement of cash flows

- The free cash flow generated in 2016 stood at EUR 184 million, vs. EUR -50 million in 2015, mainly as a result of the improved profitability of operations and the management of working capital.

- The profit from operations before the change in working capital in 2016 amounted to EUR 228 million, as compared with EUR -151 million in 2015, as a result of the operating improvements and the impact of the write-downs recorded in 2015.

Consolidated Statement of Cash Flows (€M)	2016	2015
Profit (Loss) from operations before changes in working capital	228	(151)
Cash flows from operating activities	56	182
Income tax paid	(47)	(7)
Payments due to/Proceeds from investments in intangible assets	(30)	(33)
Other cash flows from investing activities	11	6
Investments in intangible assets net of grants	**(19)**	**(27)**
Payments due to/Proceeds from investments in property, plant and equipment	(9)	(10)
Interest received	5	3
Increase in grants	-	4
Interest paid	(31)	(44)
Free cash flow	**184**	**(59)**

- Cash flows from operating activities totalled EUR 56 million in 2016 (2015: EUR 182 million). In 2016 this figure again contributed to the generation of cash as a result of the lower sales volume in the year, the higher collections in relation to the sales for the year and supplier management.

- The income tax paid amounted to EUR -47 million in 2016, as compared with EUR -7 million in 2015, due to the significant improvement of the Group's earnings in Spain in 2016 vs. 2015, as well as the result of certain measures introduced recently in Spain to expedite tax collection.

- Investments in intangible assets (net of grants collected) amounted to EUR 19 million in 2016, as compared with EUR 27 million in 2015, due mainly to the increase in grants in the current year with respect to the preceding year (EUR 11 million in 2016 vs. EUR 6 million in 2015, giving a gross investment in intangible assets of EUR 30 million in 2016 as compared with EUR 33 million in 2015).

- Property, plant and equipment additions totalled EUR 9 million in 2016, similar to the EUR 10 million invested in 2015.

3. HUMAN RESOURCES

Final Workforce	2016	%	2015	%	Variation (%) vs 2015)
Spain	18.951	55	20.251	55	(6)
America	12.091	35	13.558	37	(11)
Europe	1.632	5	1.582	4	3
Asia, Middle East & Africa	1.620	5	1.669	5	(3)
TOTAL	**34.294**	**100**	**37.060**	**100**	**(7)**

Average Workforce	2016	%	2015	%	Variation (%) vs 2015)
Spain	19.474	55	21.528	56	(10)
America	12.952	36	13.881	36	(7)
Europe	1.584	4	1.657	4	(4)
Asia, Middle East & Africa	1.637	5	1.593	4	3
TOTAL	**35.647**	**100**	**38.658**	**100**	**(8)**

* The figures for the year-end and average workforce exclude the members of the Board of Directors

At the end of 2016 the total final workforce consisted of 34,294 professionals, representing a reduction of -7% with respect to 2015 (2,766 fewer employees):

- The final workforce in Spain dropped by -6% (1,300 fewer employees), due mainly to the restructuring plan.

- In America, the final workforce decreased by -11% (i.e. 1,467 professionals) due to the drop in activity mainly in Brazil and the focus on the private sector, and to the restructuring in the region.

- In Europe, the workforce increased slightly by +3% (50 more employees) vs. 2015 as a result of an increase in needs in Italy (projects related to the IT segment) and in Norway and the UK (projects related to the ATM business).

- In Asia, the Middle East and Africa, the workforce fell slightly by -3% (49 fewer employees) with respect to 2015.

The average workforce in 2016 decreased by -8% with respect to 2015, due mainly to the efficiency plans implemented in Spain and America, where the average workforce dropped by -10% and -7%, respectively from 2015.

4. ANALYSIS BY VERTICAL MARKET

TRANSPORT & DEFENCE

T&D	2016 (€M)	2015 (€M)	Variation (%) Reported	Variation (%) Local currency	4Q16 (€M)	4Q15 (€M)	Variation (%) Reported	Variation (%) Local currency
Order Intake	1.241	1.259	(1)	(1)	343	428	(20)	(20)
Revenue	1.224	1.229	(0)	1	377	391	(3)	(3)
Defence & Security	599	556	8	8	198	191	4	4
Transport & Traffic	625	674	(7)	(6)	179	200	(10)	(10)
Book - to - bill	1,01	1,02	(1)		0,91	1,09	(17)	
Backlog / Revs LTM	1,88	1,87	1					

Revenues in the T&D segment rose by +1% in local currency (unchanged in reported terms).

Order Intake dropped by -1% in local currency and reported terms, with a book-to-bill ratio of 1.01x in 2016, similar to the figures for 2015.

The backlog/Revenues for the last twelve months was slightly higher than in 2015 (1.88x vs. 1.87x).

Defence & Security

• Defence & Security revenue grew by +8% in local currency and reported terms in 2016. Of particular note was the favourable evolution in the year of the Airborne Systems (basically in Europe), Space (Spain) and Radars & Electronic Defence (Spain and Asia, the Middle East and Africa) areas.

• By geographical area, worthy of mention were the favourable performance of the activity in Spain through specific multi-year contracts from the Ministry of Defence (electronic systems associated with the integrated mast for the future F110 frigates, electronic systems for the future armoured 8x8 vehicles, and the NH90 helicopter simulator) and the consolidation of the volume of business in Europe (basically, in Airborne Systems), America and Asia, the Middle East and Africa (Radars & Electronic Defence, Security & C4ISR, including Command, Control, Communications, Intelligence, Surveillance and Reconnaissance).

• The existing backlog (ratio of backlog to revenues for the last twelve months of over 2.0x), together with the accumulated pipeline (new Spanish and European projects) and the foreseeable definition of the EU Common Security and Defence Policy form the foundations for sustained growth in the coming years.

Transport & Traffic

• Transport & Traffic revenue dropped by -6% in local currency (-7% in reported terms) in 2016. In the year, the positive evolution of the ATM area (around 45% of sales of the vertical market) was not sufficient to counteract the sharp drop in sales in the Infrastructure & Transport segment, due, among other things, to the slowdown in projects in progress and the delay in the commencement of certain significant projects in the Railway, Road Traffic and Ticketing area in America and Spain.

• By geographical area, Spain and America performed worst in 2016 due to the slower-than-expected performance of certain projects in the Urban Traffic, Ticketing and Railway area.

• Despite delays in tendering for certain projects in oil-dependent countries, orders ended the year up by +4% on 2015 in reported terms as a result of the significant recovery in orders in the second half of the year in Europe (mainly ATM in the context of the commencement of Phase II of the SESAR programme) and Asia, the Middle East and Africa (Road Traffic & Ticketing). Thus, the book-to-bill ratio stood at 1.08x (vs. 0.96x in 2015) while the Backlog/ Revenue for the last twelve months was 1.74x (vs. 1.58x in 2015) which, together with the existing pipeline, points towards a recovery of positive growth rates in this vertical market in the coming quarters.

IT

IT revenue dropped by -5% in local currency (-8% in reported terms) in 2016. The drop in sales of the IT vertical markets was due to the adverse exchange rate effect, the repositioning in Brazil, the more selective criteria in contracting, the delay in certain AAPP tenders in Spain, the comparative performance of the Elections business and the decline in levels of activity in regions whose performance is most closely linked to the price of oil.

IT orders increased by +12% in local currency (+8% in reported terms), especially in the Energy & Industry and Financial Services vertical markets, resulting in a book-to-bill ratio of 1.01x vs. 0.86x in 2015.

The backlog to revenue LTM in 2016 remained stable at around 0.55x.

			Variation (%)				Variation (%)	
IT	2016 (€M)	2015 (€M)	Reported	Local currency	4Q16 (€M)	4Q15 (€M)	Reported	Local currey
Order Intake	1.504	1.392	8	12	321	204	57	55
Revenue	1.485	1.621	(8)	(5)	381	391	(2)	(3)
Energy & Industria	400	426	(6)	(3)	106	102	4	5
Financial Services	476	488	(2)	1	124	112	10	9
Telecom & Media	212	251	(15)	(11)	51	61	(17)	(18)
PP.AA & Healthcare	398	458	(13)	(11)	101	115	(12)	(14)
Book - to - bill	1,01	0,86	18		0,84	0,52	61	
Backlog / Revs LTM	0,55	0,55	1					

Energy & Industry

- Energy & Industry revenue dropped by -3% in local currency (-6% in reported terms) in 2016.

- The Energy segment (around 70% of the revenue of this vertical market) suffered a decrease in sales due mainly to the sharp decline in activity in America as a result of the repositioning in the area (basically in Brazil) and the decrease in activity levels in regions whose performance is most closely linked to oil prices (mainly Brazil, Colombia, Mexico and Argentina). The Spanish market (around 45% of this vertical market) grew, due basically to the positive evolution of the implementation of solutions (own and third-party).

- Revenues of the Industry segment remained virtually unchanged, thanks to the Outsourcing segment, thus witnessing a better relative performance than the Energy segment.

- By geographical area, activity in America and Asia, the Middle East and Africa in 2016 was affected by the greater dependence of these regions on the price of raw materials, exchange rates and the resizing of activity in Brazil.

- Order Intake in 2016 increased by +15% in local currency (+12% in reported terms), thanks mainly to Spain, America and Europe (basically in the Utilities Outsourcing and BPO segment).

Financial Services

- Financial Services activity grew by +1% in local currency (or fell by -2% in reported terms) in 2016, a year in which the bulk of the activity was concentrated in the banking sector to the detriment of the insurance sector.

- The business of this vertical market was conditioned by the closure of key operations in Brazil and the repositioning in the region (targeting efforts on stabilising the customer base and the services offered in the private segment), which was a factor behind the decline in revenue in America.

- The resizing and repositioning of the main entities in the financial services sector in Spain is generating a high level of dynamism in terms of business opportunities in the fields of Outsourcing, BPO and Cybersecurity (Digital Technologies).

- Despite the positive scenario in the industry (mainly in Spain) and the stabilisation of business conditions in America, a strong recovery in activity levels in the coming quarters is not anticipated, due, inter alia, to the impact of the closure of problematic projects in Brazil and the shift of focus onto the private sector.

Telecom & Media

• Telecom & Media revenues dropped by -11% in local currency (-15% in reported terms), affected by the dynamics of the operators in the sector, which are focusing on implementing efficiency and cost control measures that have exerted downward pressure on prices.

• The Media vertical market, with a less significant relative weight (around 10% of the sales of this vertical market), also performed poorly in the year, with a double-digit drop in business in reported terms.

• The fall in order intake (-6% in local currency, -12% in reported terms), together with the adverse impact of the loss of the BPO contract with Vodafone, makes any significant recovery of activity levels in the coming quarters unlikely.

Public Administrations & Healthcare

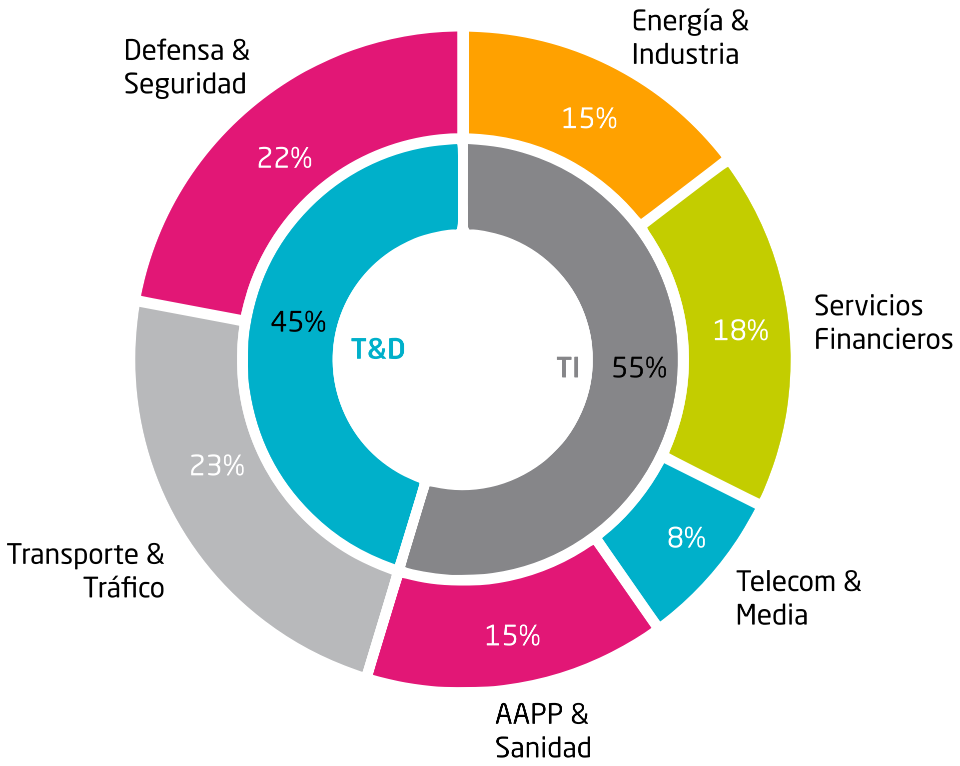
• Public Administrations & Healthcare activity dropped by -11% in local currency (or -13% in reported terms) as a result of the repositioning in America and the adverse impact of the Elections business.

• Elections business fell by -45% in 2016 (basically in Spain and America). It should be noted that due to the nature of elections, comparisons between years are not always meaningful because of the cyclical component of the market, which may can have a widely differing number of projects between two consecutive years. Therefore, based on the countries' election schedules, a rise in activity levels can be expected in the coming quarters.

• The Healthcare area performed less positively than the Public Administrations area (ex Elections), although there was an improvement in the latter part of the year as a result of specific contracts in America.

• By geographical area, excluding the impact of the Elections business (basically in Spain and America), noteworthy in 2016 was the negative performance in America associated with the gradual closure of problematic projects in Brazil and the more restrictive criteria used to select projects. In Spain, the demanding scenario witnessed in preceding periods persisted, which has an adverse impact on its contribution to this vertical market.

• The increase in order intake in this vertical market (+5% in local currency, +3% in reported terms) and the existing pipeline augur a recovery of activity levels in the coming quarters.



5. ANALYSIS BY GEOGRAPHICAL AREA

	2016		2015		Variation (%)		4Q16	4Q15	Variation (%)	
Revenues by geographical area	(€M)	(%)	(€M)	(%)	Reported	Local currency	(€M)	(€M)	Reported	Local currency
Spain	1.164	43	1.223	43	(5)	(5)	301	339	(11)	(11)
America	653	24	771	27	(15)	(8)	173	171	1	0
Europe	524	19	493	17	6	7	172	137	26	26
Asia, Middle East & Africa	368	14	363	13	1	2	112	134	(16)	(17)
Total	**2.709**	**100**	**2.850**	**100**	**(5)**	**(3)**	**759**	**781**	**(3)**	**(3)**

(*) The revenue figure reported for the "Europe" geographical area in the notes to the consolidated financial statements and in this directors' report differ from that shown for the "European Union" geographical area in the annual report submitted to the Spanish National Securities Market Commission (CNMV), since the latter only includes Eurozone countries.

By geographical area, the Group's total revenue fell by -3% in local currency (-5% in reported terms) as a consequence of the fall in the regions which account for the largest proportion of total revenue and where the IT business is concentrated: Spain (-5% local currency, 43% of total revenue) and America (-8%, 24% of total revenue). In contrast, growth was achieved in Europe (+7% in local currency, 19% of total revenue) and Asia, the Middle East and Africa (+2% in local currency, 14% of total revenue), regions where the T&D business accounts for a greater proportion of total revenue.

The outcome of the referendum on whether the UK should remain within the European Union did not have a significant effect.

Spain

- In the year revenue fell by -5% as a result of the double-digit drop in sales of the Telecom & Media business (cancellation of projects with Vodafone), Public Administrations & Healthcare (poorer comparative performance of the Elections business) and Transport & Traffic (delays in certain projects associated with the Government area in Spain), which was not fully absorbed by the growth of Defence & Security (+5%) and the positive performance of Energy & Industry and Financial Services.

- In 2016 Defence & Security was the vertical market that performed the best, boosted by the multi-year specific contracts from the Ministry of Defence (mainly electronic systems associated with the integrated mast of the future F110 frigates, electronic systems of the future armoured 8x8 vehicles, and the NH90 helicopter simulator).

- Order intake decreased by -7% in 2016 (-36% in the fourth quarter) as a result of the award in 2015 of the aforementioned multi-year contracts from the Ministry of Defence.

America

- Revenues in America dropped by -8% in local currency (-15% in reported terms) in 2016 as a whole. Activity in America is concentrated in the IT segment (around 75% of sales in the region). Aggregate sales in both the IT and T&D segments decreased, although the sales of the Financial Services and Telecom & Media vertical markets within IT and the Defence & Security vertical markets within T&D grew in local currency.

- The progress in discontinuing the problematic projects in Brazil (5 of 7 have been closed, with the closure of one of the projects pending closure having been agreed on) contributed to the improvement of profitability in the region. Most of the projects were completed in the year, in line with the Group's forecasts.

- By country, sales in 2016 fell in Brazil (repositioning) and Argentina (non-representative comparison with 2015 due to the Elections business). In Mexico and Colombia sales declined slightly in local currency (in reported terms there was a significant adverse impact in Mexico as a result of the depreciation of the Mexican peso). In contrast, sales in Chile, Peru and the Dominican Republic rose (in the latter case as a result of the performance of the Elections project).

- Order Intake grew by +10% in 2016 (unchanged at reported level), with this growth including most notably the increase in private customer business vs. public customer business, in line with the strategy established by the Group.

Europe

- In the year as a whole revenue increased by +7% in local currency (+6% in reported terms), with growth in practically all the vertical markets. Only the Telecom & Media vertical market witnessed a drop in sales, although the importance of this market in the region is not significant.

- The Defence & Security and Transport & Traffic vertical markets account for most of the activity in the area (around 75%).

- Order Intake increased by +22% in local currency and in reported terms in 2016. The sound performance of the Transport & Traffic vertical market (mainly in ATM) offset the fall in Defence & Security arising from the gradual decrease of Eurofighter project activity. In addition, worthy of mention was the strong performance of IT (around 25% of the total in the region) with double-digit growth in Energy & Industry, Financial Services and Telecom & Media.

Asia, the Middle East & Africa

- Revenue in Asia, the Middle East and Africa in 2016 grew slightly (+2% in local currency, +1% in reported terms).

- The revenue of the T&D segment (representing around 80% of total revenue in the region) grew thanks to the contribution of the Transport & Traffic vertical market (the market with the highest proportion of total sales in the region). The performance of the IT segment was good, although its weight is around 20% in the region.

- Orders in Asia, the Middle East and Africa increased by +30% in local currency (+ 29% in reported terms), and this was the region where this segment saw the highest growth. The award of a significant contract in the Defence & Security vertical market cushioned the delays that are being experienced in the Transport & Traffic area.

6. RESEARCH AND DEVELOPMENT ACTIVITIES

The Group continued to dedicate significant efforts in terms of both human and financial resources to the development of services and solutions that enable it to be a technological leader in the various sectors and markets in which it operates. Around 6.01% of annual revenue is earmarked for research, development and technological innovation activities.

7. AVERAGE PERIOD OF PAYMENT TO SUPPLIERS

Final Provision Two of Law 31/2014, amending the Spanish Limited Liability Companies Law to improve corporate governance and amending Additional Provision Three of Law 15/2010, on combating late payment in commercial transactions, establishes that all companies must expressly publish information on their average periods of payment to suppliers in the notes to their financial statements. It also enables the Spanish Accounting and Audit Institute (ICAC) to determine the rules and methodology to be used for the related calculation.

This resolution is mandatorily applicable to all Spanish commercial entities that prepare consolidated financial statements, although only for companies located in Spain that are fully or proportionally consolidated.

Accordingly, the ICAC Resolution of 29 January 2016 established the method for calculating the average period of payment to suppliers for 2015 and subsequent years.

The average period of payment to suppliers is calculated by applying the following formula in accordance with the ICAC Resolution of 29 January 2016:

$$\textbf{The average period of payment to suppliers} = \frac{\text{Ratio of transactions settled * amount of payments made + Ratio of transactions not yet settled * total amount of outstanding payments}}{\text{Total amount of payments made + Total amount of outstanding payments}}$$

	2016	2015
Datos sociedades españolas	**Days**	**Days**
Average period of payment to suppliers	55	46
Ratio of transactions settled	56	47
Ratio of transactions not yet settled	52	41
	Amount in thousands of euros	**Amount in thousands of euros**
Total payments made	693.106	700.861
Total outstanding payments	168.775	140.174

8. PRINCIPAL RISKS ASSOCIATED WITH THE BUSINESS

The main risks faced by the Group are as follows:

- Financial risks
  - Foreign currency risk
    - Accounting misstatement risk
    - Risk relating to income and expenses denominated in currencies other than the functional currencies
    - Risk of delays in or changes in the scope of projects
    - Risk of lack of competitiveness due to fluctuations in the value of specific currencies
    - Exposure to non-convertible currencies or currencies that cannot be repatriated
    - Exposure to country credit risk
  - Customer counterparty risk
  - Risk relating to access to financing sources
  - Liquidity risk
  - Interest rate risk
  - Risks arising from the availability of guarantees
  - Risk relating to access to sources of financing for R&D activities
  - Risk of failing to achieve financial ratios
  - Risk relating to supplier payment management using reverse factoring lines
  - Risks arising from changes in accounting legislation

- Operational risks / Process-related risks
  - Risks arising from the performance of projects
  - Risk arising from growth through acquisitions/incorporation of new businesses
    - Risk of the appearance of hidden liabilities or liabilities that are not known when acquisitions are made
    - Business combination risk
    - Risk of the resulting Group not being able to retain executives or key employees or to efficiently manage the labour force
  - Reputational risk
  - Risk arising from the non-recovery of intangible assets and goodwill
  - Customer dependency risk
  - Order and backlog risk
  - Cash flow seasonality risk
  - Risk arising from the implementation of the 2015-2018 strategic plan
  - International expansion risk
  - Risk arising from interests in unincorporated temporary joint ventures (UTEs)
  - Supplier risk
  - Risk of insufficient insurance coverage
  - Risk of loss of competitive position
  - Risks associated with the concentration of customer business
  - Technological risks
    - Technological change risk
    - Risk of vulnerability to cyberattacks
    - Know-how protection risks
  - Human capital and social and labour dispute risks

- Compliance risks
  - Risk associated with litigation and claims
  - Risk of disqualification from tendering for public-sector contracts
  - Legislative, regulatory and tax compliance risk

- External risks/Risks arising from the current economic situation
  - Risk of exposure to the Spanish market
  - Importance of the world economy to the business

The Group has defined a risk map, through which risks are managed and detected and the rules and control and monitoring systems required to prevent and minimise their impact are established. Risk management is addressed in depth in the Annual Corporate Governance Report.

9. CAPITAL STRUCTURE

At 31 December 2016, the Parent's share capital amounted to EUR 32,826,507.80, comprising 164,132,539 fully subscribed and paid ordinary shares of EUR 0.20 par value each. The share capital is represented in full by ordinary shares of a single class and, therefore, the shares confer the same rights and obligations. There are no restrictions on the transferability of the shares or the exercise of voting rights.

The detail of the Parent's main shareholders at 31 December 2016 with an ownership interest of 3% or more is as follows: SEPI (20.14%); Corporación Financiera Alba (11.32%); Fidelity Management & Research LLC (10.14%); Schroders (3.03%); and T. Rowe Price Associates (3.23%).

10. OTHER CORPORATE INFORMATION

The additional information traditionally contained in this section relating to (i) rules applicable to the amendment of the company's bylaws; (ii) restrictions on the transferability of securities and any restrictions on the exercise of voting rights; (iii) powers of the members of the Board of Directors and, in particular, those relating to the possibility of issuing or repurchasing shares; (iv) significant agreements that have been entered into by the company and which come into force, are amended or are terminated in the event of a change of control of the company as a result of a takeover bid; and (v) agreements between the company and its executives or employees that provide for indemnity payments when they resign or are terminated without cause or if the employment relationship comes to an end as a result of a takeover bid, is included in the Annual Corporate Governance Report (sections B.3, A.10, C.1.10, C.1.44 and C.1.45, respectively) in accordance with Article 540s of the Spanish Limited Liability Companies Law. Pursuant to Article 12 of that Law, the Annual Corporate Governance Report is an integral part of this directors' report.

11. SHAREHOLDER REMUNERATION

In 2016 the Parent did not pay any dividends.

The Parent's Board of Directors will propose to the shareholders at the Annual General Meeting that the profit of EUR 82,582 thousand be used to offset prior years' losses.

12. DERIVATIVES

The Group implements an active policy of hedging risks arising from fluctuations in interest rates and exchange rates through the arrangement of hedges and derivative instruments with banks.

13. ANNUAL CORPORATE GOVERNANCE REPORT

The Annual Corporate Governance Report is an integral part of the directors' report and may be consulted on the CNMV's website (www.cnmv.es), to which it was submitted through a relevant event communication, and on the corporate website (www.indracompany.com)

14. TREASURY SHARES

Making use of the powers conferred on it by the General Meeting, at 31 December 2016, the Parent held directly a total of 333,508 shares amounting to EUR 3,422 thousand.

In 2016 the Parent acquired on the stock market 23,958,809 treasury shares (9.49% of annual volume) and sold 23,972,312 treasury shares (9.49% of annual volume).

On 31 July 2014, the Parent entered into a liquidity contract with GVC Gaesco Valores Beka, S.V.S.A., which was renewed in July 2016, for the purpose of facilitating the liquidity of its transactions and the stability of its share price.

15. EVENTS AFTER THE REPORTING PERIOD

In connection with the takeover bid for Tecnocom, Telecomunicaciones y Energía, S.A. (Tecnocom) launched by the Parent, the following events occurred after the end of the reporting period:

* On 13 January 2017, the Parent issued a relevant event communication reporting the authorisation of the transaction by the Spanish National Markets and Competition Commission.

* On 18 January 2017, the Parent published the relevant event communication relating to the call of the Extraordinary General Meeting held at first call on February 20 at which it was approved by a majority vote of 99.46% to increase capital by the amount required to cater for the exchange of shares of the shareholders of Tecnocom that accepted the takeover bid.

* On 6 March 2017, the liquidity agreement that Indra had signed with GVC Gaesco Valores Beka, S.V.S.A. was temporarily suspended until the end of the period for acceptance of the takeover bid.

* On 13 March 2017, the Spanish National Securities Market Commission (CNMV) authorised the takeover bid and confirmed the consideration for the bid as an "equitable price". Therefore, the bid is not subject to any conditions.

* The terms and detailed characteristics of the bid are contained in the prospectus published after obtaining the requisite authorisation from the CNMV.

* Lastly, on 14 March 2017 it was announced that the acceptance period for the bid would run from 14 March 2017 to 7 April 2017, inclusive.

At the date of preparation of these consolidated financial statements EUR 50,000 thousand had been drawn down by the Parent against the loan obtained by it from the EIB (see Note 19-b).

Lastly, and in relation to other events after the reporting period, on 5 March 2017 the CNMV was informed that an administrative penalty had been imposed on the subsidiary Indra Brasil Soluções e Serviços Tecnologicos, consisting of the declaration of non-suitability to contract with the Brazilian public authorities for an undetermined period of time. The application of this penalty was suspended on 10 March 2017 after the Parent had obtained a favourable judgment from the Court of Justice of the relevant Federal District.

16. ALTERNATIVE PERFORMANCE MEASURES

In accordance with the ESMA Guidelines on Alternative Performance Measures (APMs), Group management considers that certain APMs provide useful additional financial information that should be considered when assessing the Group's performance. Management also uses these APMs in financial, operational and planning decision-making processes, as well as to evaluate the performance of the Group. The Group presents the following APMs which it considers appropriate and useful for investor decision-making and which provide the greatest degree of certainty regarding the Group's actual performance.

EBITDA

• Definition/Reconciliation: Profit from operations plus depreciation and amortisation charge.

• Explanation of use: The Group uses this financial indicator to determine its operating profitability and investors use it for company valuations.

In addition, the Group uses the EBITDA margin as an indicator of the performance of its business. This margin is the ratio of EBITDA to the volume of sales for the same period. This indicator is interpreted as the profit from operations of the Group for each euro of sales.

• Consistency of the criterion used: There was no change with respect to the prior reporting period.

Consolidated statement of profit or loss (€M)	2016	2015
Profit (Loss) from operations	162	(641)
Depreciation and amortisation charge	68	85
EBITDA	**229**	**(556)**

Net financial debt

• Definition/Reconciliation: Net financial debt is the sum of the balances corresponding to "Non-Current Bank Borrowings", "Current Bank Borrowings", "Non-Current Liabilities - Financial Liabilities Relating to Issues of Debt Instruments and Other Marketable Securities" and "Current Liabilities - Financial Liabilities Relating to Issues of Debt Instruments and Other Marketable Securities" in the consolidated statements of financial position less the balance of "Cash and Cash Equivalents".

• Explanation of use: The Group uses this financial indicator to measure its leverage.

In this regard, the Group uses the Net Financial Debt to EBITDA ratio as an indicator of its level of leverage and capacity to repay its financial debt. Accordingly, the EBITDA figure used in the calculation of the ratio for interim periods is determined taking into consideration the equivalent annual EBITDA for the twelve months immediately preceding the ratio calculation date.

• Consistency of the criterion used: There was no change with respect to the prior reporting period.

Consolidated statement of financial position (€M)	2016	2015
Cash and equivalents	**674**	**342**
Non-current liabilities	**(1.136)**	**(962)**
Bank borrowings	(722)	(724)
Financial liabilities relating to issues of debt instruments and other marketable securities	(414)	(238)
Current liabilities	**(61)**	**(79)**
Bank borrowings	(60)	(79)
Financial liabilities relating to issues of debt instruments and other marketable securities	(1)	(1)
Net financial debt	**(523)**	**(700)**

Free cash flow

Definition/Reconciliation: These are the cash flows generated by the Group prior to dividend payments, net financial investments and other similar amounts, and investments in treasury shares (see Note 2, Statement of Financial Position and Statement of Cash Flows).

• Explanation of use: This is the cash originated by the Group's business that is available to contributors of funds (shareholders and financial creditors) once the Parent's investment needs have been met. Investors use this indicator for company valuations.

• Consistency of the criterion used: There was no change with respect to the prior reporting period.

Contribution margin

• Definition: The difference between the sales and the direct and indirect costs of the Group's various segments or business units. The direct costs are those directly attributable to the sales recognised in a specific period and include the cost of the own or subcontracted resources used in the projects, as well as any cost incurred that is necessary for the development and completion of a project; costs of materials, project travel expenses, etc. Indirect costs are those which, although linked to a segment or business unit of the Group, are not directly attributable to billable projects or to sales recognised in a given period. Indirect costs include, but are not limited to, commercial costs, costs incurred in the preparation of tenders, or the costs of managing a given segment, etc. The contribution margin does not take corporate costs into account, since such costs are not directly attributable to any specific segment or business.

This parameter could also be calculated on the basis of the profit from operations, adding to it corporate costs (rent, staff overheads, general services, etc.) and impairment losses and provisions.

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

Also, in order to facilitate comparisons between segments with a different relative weight in the total sales of the Group, the contribution margin to sales ratio of the segments or business units is used, which is taken to be the contribution margin per every euro of sales of a specific segment.

• Consistency of the criterion used: There was no change with respect to the prior reporting period.

€M	T&D	IT	Eliminations	2016
Total sales	1.224	1.495	(10)	2.709
Inter-segment sales	0	10	(10)	-
External sales	**1.224**	**1.485**	**--**	**2.709**
Contribution Margin	**233**	**145**	**--**	**378**
Contribution Margin (%)	**19%**	**10%**	**--**	**14%**

€M	T&D	IT	Eliminations	2015
Total sales	1.229	1.636	(15)	2.850
Inter-segment sales	0	15	(15)	-
External sales	**1.229**	**1.621**	**--**	**2.850**
Contribution Margin	**182**	**81**	**--**	**263**
Contribution Margin (%)	**15%**	**5%**	**--**	**9%**

Orders

• Definition: This is the value of the contracts awarded in a specified period. This indicator should not be confused with income or revenue, since a contract awarded in a specific year (which is computed as an order for that year) may be performed over several years.

• Explanation of use: Since this involves the value of the contracts awarded in a given year, "Orders" is an indicator of the future performance of the Group's business.

• Consistency of the criterion used: There was no change with respect to the prior reporting period.

Backlog

• Definition: This is the amount of accumulated orders less sales made plus/minus, adjustments arising, inter alia, from exchange rate fluctuations and the renegotiation of contracts. It is the amount of the sale pending until the completion of the project to complete the value of the order.

• Explanation of use: since this is the amount of contracts awarded and not yet performed, "Backlog" is an indicator of the future performance of the Group's business.

• of the criterion used: There was no change with respect to the prior reporting period.

02

Annual Corporate Governance Report

Listed Companies

Issuer's identification data:	Indra
Year ended:	31 de diciembre de 2016
CIF:	A-28599033
Company name:	Indra Sistemas, S.A.
Registered Office:	Avda. Bruselas, 35, Alcobendas, Madrid

This document contains the Annual Corporate Governance Report submitted to the Comisión Nacional del Mercado de Valores ("Spanish Securities Market Commission" or "CNMV") pursuant to the form prescribed by the CNMV;additionally, this report contains all commentaries and notes for each section to facilitate its understanding.

A. CAPITAL STRUCTURE

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

Date of last change	Share capital (Euros)	Number of shares	Number of voting rights
14-09-2007	32.826.507,80	164.132.539	164.132.539

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

Yes ☐ No ☑

Class	Number of Shares	Par Value	Number of Votes	Associated Rights
-	-	-	-	-

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

Name of Shareholder	Direct Voting Rights	Indirect Voting Rights		% of total voting rights
		Name of Shareholder with Direct Rights	Number of Votes	
Sociedad Estatal de Participaciones Industriales, S.A.	33.057.734	-	0	20,141
Corporación Financiera Alba, S.A.	0	Alba Participaciones, S.A.	18.587.155	11,32
FMR LLC*	0	Fidelity Low Priced Stock Fund y otros	16.642.000	10,140
Orbis Allan Gray Limited**	0	Orbis Investment Management Limited y otros	3.237.696	1,973
Schroders PLC	0	Schroders Investment Management Limited	4.976.416	3,032
T. Rowe Price Associates, INC	0	Not named in its communication with the CNMV	5.294.295	3,226

* Through Fid Low Priced Stock Fund and others. Of the 10.14% of capital stock indicated, 7.53% pertains to voting rights attached to shares, while 2.61% pertains to voting rights arising from financial instruments.

** According to a communication dated 21 September 2016, interest is held by funds managed by Orbis Management Limited, Orbis Asset Management Limited and Orbis Portfolio Management (Europe) LLP.

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

Name of Shareholder	Date of Transaction	Description
Orbis Allan Gray Limited	01 Jan 2016	Surpassed 2% equity interest
Schroders PLC	13 Jan 2016	Dropped below 3% equity interest
Taube Hodson Stonex Partners LLP	12 Feb 2016	Dropped below 3% equity interest
FMR LLC	15 Mar 2016	Surpassed 10% equity interest
Lansdowne European Equity Master Fund LTD	17 Mar 2016	Dropped below 1% equity interest
Lansdowne Partners Internacional Limited	10 May 2016	Surpassed 1% equity interest
Lansdowne Partners Internacional Limited	26 May 2016	Dropped below 1% equity interest
Orbis Allan Gray Limited	14 Jun 2016	Surpassed 3% equity interest
Telefónica, S.A.	22 Jul 2016	Dropped below 3% equity interest
Orbis Allan Gray Limited	02 Aug 2016	Dropped below 3% equity interest
Bestinver Gestión,S.A. SGIIC	03 Aug 2016	Dropped below 3% equity interest
Orbis Allan Gray Limited	20 Sep 2016	Dropped below 2% equity interest
Norges Bank	28 Sep 2016	Surpassed 3% equity interest
Schroders PLC	27 Oct 2016	Surpassed 3% equity interest
T Rowe Price Associates, Inc.	15 Nov 2016	Surpassed 3% equity interest
Norges Bank	20 Dec 2016	Dropped below 3% equity interest

Reported transactions which do not involve changes in equity participation refer to percent changes relative to voting rights held through shares and/or through financial instruments, when said changes exceed the threshold percentages fixed by Article 23.1 Real Decreto 1362/2007.

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

Name of Director	Number of Direct Votes	Number of Indirect Votes	Percentage of Voting Rights
Isabel Aguilera Navarro Navarro	41.220	0	0,025
Javier de Andrés González González	152.352	0	0,093
Juan Carlos Aparicio Pérez Pérez	12.391	0	0,008
Daniel García-Pita Pemán Pemán	65.794	12.600	0,048
Luís Lada Díaz Díaz Díaz	36.528	0	0,022
Juan March de la Lastra	31.216	0	0,019
Santos Martínez-Conde Gutierrez-Barquín	20.677	0	0,013
Adolfo Menéndez Menéndez	13.673	0	0,008
Fernando Abril-Martorell Hernández	59.256	0	0,036
Enrique de Leyva Pérez Pérez	7.148	0	0,004
Ignacio Santillana del Barrio del Barrio	26.998	0	0,016
Rosa Sugrañes Arimany	34.817	0	0,021
Alberto Terol Esteban Esteban	33.172	0	0,020
Total percentage of voting rights held by the Board of Directors			**0,333**

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

		Indirect Rights			
Name of Director	Number of Direct Rights	Name of Shareholder with Direct Rights	Number of Votes	Number of Equivalent Shares	Percentage of Total Voting Rights
		-	-	-	-

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

Name of Related Party	Nature of Relationship	Brief Description
-	-	-

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

Name of Related Party	Nature of Relationship	Brief Description
-	-	-

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

Yes ☐ No ☑

Parties to the Shareholder Agreement	Percentage of Affected Shares	Brief Description of the Agreement
-	-	-

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

Yes ☐ No ☑

Parties to the Coordinated Act	Percentage of Affected Shares	Brief Description of the Agreement
-	-	-

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

A.7. Indicate whether any individual or company exercises or may exercise control over the Company in accordance with Article 54 of the Ley de Mercados de Valores ("Spanish Securities Exchange Act" or "LMV"). If so, please identify them:

Yes ☐ No ☑

Name of Individual or Company
-

Remarks
-

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

At the close of the fiscal year:

Number of Direct Shares	Number of Indirect Shares (*)	Total Percentage of Share Capital
333.508	--	0,203

*Results for treasury share transactions in fiscal 2016 was a profit of 440 M €.

(*) Through:

Name of Direct Shareholder	Number of Direct Shares
-	-
Total:	-

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

Explain significant changes	
04 Jan 2016-	1,681,637 shares acquired, 1.025% capital stock.
26 Jan 2016-	1,648,016 shares acquired, 1.004% capital stock.
17 Feb 2016-	1,652,890 shares acquired, 1.007% capital stock.
08 Mar 2016-	1,698,772 shares acquired, 1.035% capital stock.
24 Mar 2016-	1,709,737 shares acquired, 1.042% capital stock.
14 Apr 2016-	1,746,319 shares acquired, 1.064% capital stock.
05 May 2016-	1,654,419 shares acquired, 1.008% capital stock.
03 Jun 2016-	1,745,073 shares acquired, 1.063% capital stock.
04 Jul 2016-	1,704,752 shares acquired, 1.039% capital stock.
01 Aug 2016-	1,671,370 shares acquired, 1.018% capital stock.
30 Aug 2016-	1,652,684 shares acquired, 1.007% capital stock.
30 Sep 2016-	1,668,290 shares acquired, 1.016% capital stock.
27 Oct 2016-	1,690,764 shares acquired, 1.030% capital stock.
23 Nov 2016-	1,648,088 shares acquired, 1.004% capital stock.
20 Dec 2016-	1,655,097 shares acquired, 1.008% capital stock.

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

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

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

This authority shall be subject to the following conditions:

(i) The nominal value of any treasury shares acquired under this authority, when added to the treasury shares already possessed by the purchasing entity and its affiliates, may not exceed 10% of nominal capital.
(ii) The minimum acquisition price or the minimum amount of consideration to be paid shall be the par value of the shares acquired and the maximum acquisition price or the maximum amount of consideration to be paid shall be listed price of the acquired shares on a regulated secondary market at the time of acquisition.
(iii) Acquisition of shares must not result in a reduction of equity below the sum of the value of treasury shares plus reserves which are unavailable either by applicable law or by the Bylaws.

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

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

A.9.bis Estimated Working Capital

	%
Estimated Working Capital	68,54%

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

Yes ☐ No ☑

Description of Restrictions
-

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

Yes ☐ No ☑

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

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

Yes* ☑ No ☐

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

*See Report of Material Fact submitted to the CNMV on 8 October, 2013 and 28 September 2016, for more information about the bonds.

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

B. ANNUAL SHAREHOLDERS' MEETING

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

Yes ☐ No ☑

	% quorum different from that contained in Article 193 LSC for general matters	% quorum different from that contained in Article 194 LSC for special resolutions
Quorum required on 1st call		-
Quorum required on 2nd call	-	-

Description of differences

-

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

Yes ☐ No ☑

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

	Supermajority different from that established in Article 201.2 LSC for Article 194.1 LSC matters	Other matters requiring a supermajority
% established by the company for adoption of resolutions	-	-

Describe the Differences

-

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

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

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

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

	Attendance Data				
			% Remote Voting		
Date of Annual Meeting	% Physically Present	% Present by Proxy	Electronic Voting	Other	Total
30 June 2016	0,51	68,28	0,01	0,65	69,45%
25 June 2015	0,63	66,42	0,01	1,49	68,55%

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

Yes ☐ No ☑

Number of shares required to attend Annual Meetings	-

B.6. Repealed

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

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

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

C. COMPANY ADMINISTRATIVE STRUCTURE

C.1. Board of Directors

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

Maximum Number of Directors	15
Minimum Number of Directors	8

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

Name of Director	Natural Person Rep	Director Category	Position on the Board	Date First Named to Board	Last Re-election Date	Method of Selection to Board
Fernando Abril-Martorell Hernández Hernández	-	Executive	Chairman	29 Jan, 2015	25 June, 2015	Annual Shareholders Meeting
Daniel García-Pita Pemán Pemán	-	Independent	Vice-chair/ Coordinating Director	25 June, 2009	25 June, 2015	Annual Shareholders Meeting
Javier de Andrés González González	-	Executive	CEO	21 June, 2011	26 June, 2014	Annual Shareholders Meeting
Isabel Aguilera Navarro Navarro	-	Independent	Director	27 June, 2005	26 June, 2014	Annual Shareholders Meeting
Juan Carlos Aparicio Pérez Pérez	-	Proprietary	Director	26 Sept, 2013	26 June, 2014	Annual Shareholders Meeting
Luís Lada Díaz Díaz Díaz	-	Independent	Director	21 June, 2007	30 June, 2016	Annual Shareholders Meeting
Juan March de la Lastra	-	Proprietary	Director	29 July, 2009	30 June, 2016	Annual Shareholders Meeting
Santos Martínez-Conde Gutiérrez-Barquin	-	Proprietary	Director	27 June, 2013	30 June, 2016	Annual Shareholders Meeting
Adolfo Menéndez Menéndez	-	Proprietary	Director	26 Sept, 2013	26 June, 2014	Annual Shareholders Meeting
Enrique de Leyva Pérez Pérez	-	Independent	Director	30 April, 2015	25 June, 2015	Annual Shareholders Meeting
Rosa Sugrañes Arimany	-	Independent	Director	26 June, 2008	26 June, 2014	Annual Shareholders Meeting
Alberto Terol Esteban Esteban	-	Independent	Director	24 June, 2010	30 June, 2016	Annual Shareholders Meeting
Ignacio Santillana del Barrio del Barrio	-	Independent	Director	21 June, 2011	26 June, 2014	Annual Shareholders Meeting

Total number of Directors	13

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

Name of Director	Director Type at Time of Leaving	Date Director Left
-	-	-

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

Executive directors

Director Name	Position with the Company
Fernando Abril-Martorell Hernández Hernández	Chairman of the Board
Javier de Andrés González González	CEO
Total Number of Executive Directors	2
Percentage of Board	15,38

Proprietary directors

Name of Director	Name of significant Shareholder Represented or Proposing Directorship
Juan March de la Lastra	Corporación Financiera Alba, S.A.
Santos Martínez-Conde Gutiérrez-Barquín	Corporación Financiera Alba, S.A.
Juan Carlos Aparicio Pérez	Sociedad Estatal de Participaciones Industriales (SEPI)
Adolfo Menéndez Menéndez	Sociedad Estatal de Participaciones Industriales (SEPI)
Total Number of Proprietary Directors	4
Percentage of the Board	30,76

Independent directors

Name of Director	Profile
Isabel Aguilera Navarro Navarro	Born in Sevilla in 1960. Architect and Urban Planner, MBA from the Instituto de Empresa, Degree in Executive Management from IESE. She has spent her career in several IT companies such as HP/Compaq, Vodafone, and Dell, where, in addition to her role as Business Director for Southern Europe she was Chair and Chief Executive for Spain, Portugal and Italy. At NH Hotels, a multinational company operating in more than 19 countries, she was COO; at Google Inc. she filled the post of Chairman of the Board for Spain and Portugal, and at General Electric, she was chief executive for Spain and Portugal until May, 2009. She has served as director at Aegón España, S.A. as well. Today, she is director at BMN (Banco Mare Nostrum), at Aegón Seguros, España, Egasa XXI, S.A. and Oryzon Genomics, S.A. as well as an associate professor at ESADE.
Daniel García-Pita Pemán Pemán	Born in 1947. Lawyer. He has spent his entire career at the law firm of J & A Garrigues, which he joined in 1969 and where he is a Managing Partner. He has served as Professor of Business Law at the Universidad Central de Madrid and as a member of the Governing Board of the Madrid Bar Association. Legal Counsel to numerous organisations and member of the Board of important listed companies, Indra among them, where he was non-member Secretary until 2009. Currently he is Secretary of Aegón España, S.A., of Seguros y Reaseguros, independent director of DTS Distribuidora de Televisión Digital, and Chairman of the Board of Andbank.
Luís Lada Díaz Díaz	Born in 1949. Telecommunication Engineer and Académico de Número of the Royal Academy of Engineering, with a long career in Grupo Telefónica where he has been head of Telefónica Móviles and Telefónica de España. Additionally, he has been a director and leading member of many companies and organizations related to IT. He is an advisor to Assia Inc., independent director at ENCE Energía y Celulosa, S.A., and a director at Gamesa Corporación Tecnológica, S.A.
Ignacio Santillana del Barrio del Barrio	Born in 1948. Ph.D in Economics (1978) from the University of Indiana and Doctorate in Economics from the Universidad Autónoma de Madrid (1980). Since December, 2012, he has been Chairman of the Board of Grupo Santillana Educación Global, S.L. and a member of the board of Prisa Radio, and Cadena Ser. While at Grupo Prisa he served as COO. Before that, he spent his career in the United States as Executive Vice President at G.T.E. and at Telefónica, where he served as CFO, CEO of Telefónica Internacional, and General Manager of Telefónica. Earlier, he was Chairman of the Empresa Nacional de Inovación and Economist at the Asociación Española de la Banca Privada. He is a member of the board at the Escuela de Finanzas, AFI. In 1974 he was awarded the Juan March scholarship and in 1978 was a Fulbright scholar. Other highlights of his career: Chairman of Nokia España and of its Advisory Committee, Director of Banco Gallego, and member of the Advisory Boards of Accenture, Eptisa, and Fundación Albéniz.
Rosa Sugrañes Arimany	Born in 1957. Degree in Business Administration from the Universidad Autónoma de Barcelona. Founding member of Iberia Tiles Corp of Miami, Florida from 1980 until its sale in 2012. Member of the board of Sabadell United Bank in Florida and of Grupo Rosa Gres de Barcelona.
Alberto Terol Esteban Esteban	Born in 1955. Degree in Economics and Business Administration from the Universidad Complutense de Madrid. He began his career at Arthur Andersen where he was made partner and headed various projects. He was a member of the Board of Partners of Andersen Worldwide. He has been Managing Partner of Garrigues-Andersen. He filled the post of head of Europe for Andersen for a year and a half, and was a member of the Worldwide Executive Committee. He was also a board member of the Legal and Tax practice for Arthur Anderson. He was a member of the Executive Committee for Deloitte, where he was head of Latin America and later of Europe, Middle East and Africa. Additionally, Mr. Terol served as managing director of worldwide Legal and Tax practice. He has also been International Senior Advisor for BNP Paribas. Currently he is Chairman and CEO of several family businesses, Independent Director at International Airlines Group, S.A., where he is a member of the Audit Committee and the Compensation Committee, and an independent board member at Broseta Abogados.
Enrique de Leyva Pérez Pérez	Born in Sevilla, 1959. Civil Engineering degree from the Universidad Politécnica de Madrid and MBA from Columbia University. Currently he is a Founding Partner at Grupo Magnum and Chairman and Chief Executive Officer 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 CEO 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.

Number of Independent Directors	7
Percentage of the Board	53,84

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

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

Name of the Director	Description of the Relationship	Statement of the Board
-	-	-

Other outside directors

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

Name of Director	Reason	Company, Director or Shareholder to whom the Director is Connected
-	-	-

Total Number of Other Outside Directors	-
Percentage of the Board	-

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

Name of Director	Date of Change	Prior Status	Current Status
-	-	-	-

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

	Number of Female Directors				% of Directors for each Category			
	Fiscal year t	Fiscal year t-1	Fiscal year t-2	Fiscal year t-3	Fiscal year t	Fiscal year t-1	Fiscal year t-2	Fiscal year t-3
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
Independent	2	2	2	3	28,57	28,57	33,33	42,85
Other Outside	0	0	1	0	0	0	100	0
Total	2	2	3	3	15,38	15,38	23,08	21,42

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

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

C.1.6. Describe the means, if any, agreed upon by the nomination committed to ensure that selection procedures do not contain hidden biases which impede the selection of female Directors and that the Company deliberately seeks and includes women who meet the target professional profile among potential candidates:

Explanation of Means
Article 20.3 of the Board Rules establishes that any individual proposed for appointment to the Board must be of good personal and professional reputation, sufficiently capable of working with dedication and have no interests that are incompatible with the position involved. Furthermore, internal operating rules of the Company provide that the Board and the Nomination, Compensation and Corporate Governance Committee must take particular care to apply criteria and policies intended to increase gender diversity on the Board during the process of selecting individuals to become Directors. They have done so during successive membership turnover in the past few years, it being with Independent Directors and other Outside Directors that the Board and the Nomination, Compensation and Corporate Governance Committee have the most power to make changes, as they have the ability to consider a much larger number of potential candidates for the position of Director. To this end, the current Policy for Selection of Directors has as its goal the achievement of at least thirty percent representation by female members on the Board of Directors by 2020. This policy requires that all proposals for appointment or re-election of Directors be accompanied by a report issued by the Nomination, Compensation and Corporate Governance Committee evaluating the experience, competence and merits of each candidate. These reports are published upon call of Annual Shareholders' Meetings so that each shareholder may be aware of the current policy and selection procedure for Directors and may verify that it is consistent with best practices in Corporate Governance. The two current female Directors account for 15.37% of the total number of Directors, 18.18% of the Non-Executive Outside Directors, and 25.87% of Independent Directors, which, as already mentioned, is the category in which the Board is most capable of exercising its influence by applying gender diversity policies. It should be taken into account that both Executive Directors, the Chairman and the CEO, are male. As for Proprietary Directors, the Board of Directors and the Nomination, Compensation and Corporate Governance Committee can only recommend that Shareholders consider assigning women to positions as Directors in representation of their equity interest, although this depends upon women holding top-level positions in their respective organisations, as it is in the interest of the Company that Proprietary Directors be selected from the highest levels of its Shareholders' organisations.

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

Explanation of Reasons
-

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

As mentioned in the preceding section, the Board of Directors and the Nomination, Compensation and Corporate Governance Committee have been careful to apply criteria and policies designed to promote gender diversity among board members in their selection of persons to take on that role. The Nomination, Compensation and Corporate Governance Committee concluded that the Company is in compliance with the Selection Policy for Directors and applied it properly in producing nominees during fiscal 2016. The Board, upon proposal by the Nomination, Compensation and Corporate Governance Committee approved a new criterion in 2016 of mandatory rotation for those Independent Directors who have served for three terms and to publish it at the next Annual Shareholders Meeting. This new criterion will accelerate turnover on the Board and will help achieve 30% female membership on the Board of Directors by 2020.

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

The following are Directors who during fiscal 2016 were Board members in representation of the interests of significant shareholders:

Juan March de la Lastra, representing the proprietary interests of Corporación Financiera Alba, S.A.

Santos Martínez-Conde Gutiérrez-Barquin, representing the proprietary interests of Corporación Financiera Alba, S.A.

Juan Carlos Aparicio Pérez, representing the proprietary interests of SEPI.

Adolfo Menéndez Menéndez, representing the proprietary interests of SEPI.

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

Name of Shareholder	Reason
-	-

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

Yes ☐ No ☑

Name of Shareholder	Explanation
-	-

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

Name of Director	Reason for Departure
-	-
-	-

C.1.10. Identify the powers delegated to the CEO/s, if any:

Name of Director	Brief Description
Fernando Abril-Martorell Hernández	All the powers of the Board except those that may not be delegated by law.
Javier de Andrés González	All the powers of the Board except those that may not be delegated by law.

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

Name of Director	Name of Group Member	Position	Does the Director have Executive Powers?
Javier de Andrés González González	Indra Philippines, INC	Vicepresident of the Board	No

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

Name of Director	Name of Listed Company	Position
Luís Lada Díaz Díaz	Gamesa Corporación Tecnológica, S.A.	Director
	Ence Energía y Celulosa, S.A.	Director
	Perlora Inversiones, SIcav, S.A.	Chairman
Juan March de la Lastra	Corporación Financiera Alba, S.A.	Vice Chair
	Viscofan, S.A.	Director
Fernando Abril-Martorell Hernández Hernández	Ence Energía y Celulosa, S.A.	Director
Albert Terol Esteban	International Consolidated Airlines Group, S.A.	Director
Santos Martínez-Conde Gutiérrez-Barquín	Corporación Financiera Alba, S.A.	Director
	Acerinox, S.A.	CEO
	Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.	Director
Isabel Aguilera Navarro Navarro	Oryzon Genomics,	Director

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

Yes ☑ No ☐

Explanation of the rules
Article 33 of the Board Rules establishes that a Director must devote the time and effort necessary to carry out his or her functions adequately. Therefore, Directors must inform the Board of any activities that could significantly affect their dedication to the Company. So far as the number of other boards to which a Director may belong is concerned, the general rule is that the Director may not belong to so many that it interferes with the Director's dedication to the post of Director at Indra. To that end, the Company's board members are subject to the following general limits: (i) Executive Directors of the company may only fill posts on the boards of up to two other listed companies; (ii) non-Executive Directors may only fill posts on the boards of up to four other listed companies.

C.1.14. Repealed

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

Board compensation (thousands of euros)	7.573
Amount of vested pension interests for current members (thousands of euros)	5.884 (1)
Amount of vested pension interests for former members (thousands of euros)	0

(1) This amount corresponds to the amount accumulated as of 31 December 2016 in the Early Retirement and Long Term Savings Plan managed externally by means of an insurance policy, of whom the beneficiaries are the Executive Directors.

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

Name	Position
Eduardo Bonet Sánchez	General Manager
José Cabello Chacón	General Manager
Hitesh Chaturvedi	General Manager
Rafael Gallego Carbonell	General Manager
Carlos González Soria	General Manager
Javier Lázaro Rodríguez	General Manager
Antonio Mora Morando	General Manager
José Manuel Pérez-Pujazón Arza	General Manager
Cristina Ruíz Ortega	General Manager
María Dolores Sarrión Martínez	General Manager
Carlos Suárez Pérez	General Manager
Juan Tinao Martín-Peña (1)	General Manager

(1) Left his post at the end of the fiscal year

Total Senior Management Compensation (in 1000's of euros)	5.866

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

Name of Director	Name of significant Shareholder	Post
Juan March de la Lastra	Corporación Financiera Alba, S.A.	Vice Chairman
	Banca March, S.A.	Chairman
Santos Martínez-Conde Gutiérrez-Barquín	Corporación Financiera Alba, S.A.	CEO
	Banca March, S.A.	Director
	Artá Capital, S.G.E.C.R., S.A.	Director
	DEYÁ CAPITAL, S.C.R., S.A..	Chairman
	DEYÁ CAPITAL IV, S.C.R., S.A.	Chairman
	Artá Partners, S.A.	Chairman

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

Name of Associated Director	Name of Associated significant Shareholder	Description of the Relationship
-	-	-

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

Yes ☑ No ☐

Description of Amendment

In its session of 26 May, 2016, the Board of Directors unanimously agreed to amend certain articles of the Board Rules with the following goals:

- Harmonize them with changes made to the LSC, by Ley 22/2015 de 20 de julio, de Auditoría de Cuentas, (Article 18 of the Board Rules), in particular those regarding knowledge required of Audit Committee members;
- Reflect resolutions regarding the creation of an Executive Committee and elimination of the Strategy Committee (Articles 16 and 17);
- Raise to 6 the maximum number of Directors who may sit on the Audit and Compliance Committee and on the Nomination, Compensation and Corporate Governance Committee (Articles 18 and 19);
- Incorporate express mention of the authority of the Nomination, Compensation and Corporate Governance Committee which does not appear expressly under law (Article 19).

These amendments of the Board Rules were communicated to the CNMV and filed with the Registro Mercantil de Madrid ("Madrid Business Registry") and immediately upon communication to the CNMV the new version of the Rules in effect was made available for review on the Company web page (www.indracompany.com) under the section for Shareholders and Investors, Corporate Governance area.

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

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

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

- That Outside Directors represent a substantially larger component than Executive Directors.

- That in order to establish a balance between Proprietary and Independent Directors, focus should be on the Company shareholder structure, considering the importance of equity stake as well as the degree of permanence and strategic company connections with the holders thereof.

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

Additionally, in crafting proposals for re-election and appointment of Directors that it submits to Meetings, and after a favourable report from the Nomination, Compensation and Corporate Governance Committee, the Board evaluates the following criteria in its selection of candidates:

- That they posses sufficient knowledge, experience and ability in the following areas: (i) the sectors in which the Company operates and/or other related sectors or sectors with similar characteristics; (ii) finance, economics and control; (iii) evaluation and management of executive level staff and highly qualified human resources; (iv) the general economic environment and geographic markets most important to the Company; and (v) management and entrepreneurship.

- Ability to devote the dedication required for fulfilment of the post.

Consistent with the provisions of Recommendation 14 of the Code of Good Governance for Listed Companies, the Board of Directors has approved a Policy for Selection of Directors which contains all of the current criteria and Company procedures in this regard. For the most part this information is already public, having been published in the Annual Corporate Governance Report and in materials supporting proposed resolutions to the Annual Shareholders Meeting relevant to this area and without which no changes or amendments could have been made.

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

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

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

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

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

The Board approved in 2016 a more restrictive criterion for renewal of Independent Directors than that which the law requires (time limit of twelve years at the post) consisting in not proposing for re-election at the Annual Shareholders Meeting any Independent Director who has served three terms (of three years each), so that an Independent Director may be proposed for re-election only twice. This criterion will be applied for the first time at the Meeting to be held in June, 2017.

Evaluation: Pursuant to Article 13 of the Board Rules, after using the report from the Committee as a starting point, the Board performs an annual evaluation of its proceedings and the quality of its work, as well as the work of its committees. Each of these bodies performs its own evaluation and prepares a report on its activities and actions during the year, which is then submitted to the Board. This year, the Report on the Activities of the Audit and Compliance Committee and of the Nomination, Compensation and Corporate Governance Committee for 2016 will be published, along with the rest of the information made available to Shareholders, upon first call of the Annual Shareholders Meeting.

The evaluation for fiscal 2015 was carried out using standard internal procedures as have been applied in previous years, consisting in completion by each Director of individual questionnaires regarding the structure, composition and workings of the Board and its Committees.

The evaluation process ended with a satisfactory opinion of its performance and the quality of the Board's work and that of its Committees in fiscal 2015.

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

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

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

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

Description of Changes

As indicated in Section C.1.19 above, during fiscal 2016 the Company performed an evaluation of the performance and work quality of the Board and its committees for fiscal 2015.

During this evaluation process it became clear that it would be preferable if strategy matters were dealt with directly by the Board rather than by a Strategy Committee, and that the Board could delegate operational matters of lesser import to an Executive Committee, and focus more deeply on strategic analysis and other matters reserved for it by law; this gave rise to the elimination of the Strategy Committee and the creation of an Executive Committee. From said evaluation also arose the idea to reconsider the qualifications for Directors and their rotation among the various committees. The Board analyzed them and will take them into particular account when the next vacancies arise.

C.1.20. bis. Describa el proceso de evaluación y las áreas evaluadas que ha realizado el Consejo de Administración auxiliado, en su caso, por un consultor externo, respecto de diversidad en su composición y competencias, del funcionamiento y la composición de sus comisiones, del desempeño del presidente del consejo de administración y del primer ejecutivo de la sociedad y del desempeño y la aportación de cada consejero.

The evaluation process referred to in the previous section was performed without the collaboration of external advisors and consisted of completion of an extensive questionnaire with questions regarding the structure, composition and workings of the Board and its Committees, which were evaluated individually by each of the Directors.

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

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

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

C.1.20.ter Describe in detail any business relationships which the consultant or any business within its group maintains with the company or any company in its group.

N/A

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

As established in Article 23 of the Board Rules, Directors must report to the Board and offer their resignations under the following circumstances:

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

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

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

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

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

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

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

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

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

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

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

C.1.22. Repealed

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

Yes ☐ No ☑

If so, please describe any differences:

Description of differences
-

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

Yes ☐ No ☑

Description of Requirements
-

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

Yes ☑ No ☐

Matters Where the Chairman has a Casting Vote
All, except for sessions which, as stipulated in the Board Rules, the Chairman must not attend or in which the Chairman must abstain from voting.

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

Yes ☐ No ☑

Age Limit for Chairman ☐

Age Limit for CEO ☐

Age Limit for Directors ☐

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

Yes ☐ No ☑

Term Limit	-

The Board approved in 2016 a more restrictive criterion for renewal of Independent Directors than that which the law requires (time limit of twelve years) consisting in not proposing for re-election at the Annual Shareholders Meeting any Independent Director who has served three terms (of three years each), so that an Independent Director may be proposed for re-election only twice. This criterion will be applied for the first time at the Meeting to be held in June, 2017.

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

In addition to applicable legislation, Article 14.2 of the Board Rules stipulates that, if a Director is unable to attend a meeting, the Director should try to submit a proxy, preferably with voting instructions, unless, in the Director's opinion, this would not be appropriate. The proxy may be sent by e-mail, letter, fax, telegram or any other valid means where transmission is verifiable. Non-Executive Directors may submit a proxy only to another non-Executive Director.

C.1.29. Indicate the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the Chairman present. Meetings where the Chair sent specific proxy instructions are to be counted as attended.

Number of Board Meetings	12
Number of Board Meetings without the Chairman	0

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

Number of Meetings	1 (*)

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

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

Number of meetings held by the Executive Committee	2
Number of meetings held by the Audit Committee	13
Number of Meetings held by the Appointment and Compensation Committee	9
Number of meetings held by the Appointment Committee	-
Number of meetings held by the Compensation Committee	-
Number of meetings held by the Strategy Committee	-

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

Number of meetings when all Directors attended	12
% of attendance over total votes during the fiscal year	100%

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

Yes ☑ No ☐

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

Name	Position
Javier de Andrés González González	CEO
Javier Lázaro Rodríguez	CFO

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

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

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

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

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

Yes ☐ No ☑

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

Name of the secretary	Representative
José Antonio Escalona de Molina	-
-	-

C.1.34. Repealed

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

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

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

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

As regards relationships with financial analysts and investment banks, the Company makes frequent presentations and conference calls describing results and other events for these institutions during which business development and the scope and extent of the Group's most important economic and financial matters are described, in a manner that guarantees equal treatment of all.

All presentations to analysts are delivered beforehand to the CNMV, with the goal that the markets be informed of their contents through their website. Such presentations are published immediately on the Company website.

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

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

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

Yes ☑ No ☐

Outgoing Auditor	Incoming Auditor
KPMG Auditores, S.L.	Deloitte, S.L.

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

Yes ☐ No ☑

Explanation of Disagreements
-

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

Yes ☑ No ☐

	Company	Group	Total
Amount invoiced for non-audit services (1000's of euros)	841	-	841
Amount invoiced for nonaudit services/ Total amount invoiced by the audit firm (in %)	63,7%	-	36,7%

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

Yes ☐ No ☑

Explanation of Reasons
-

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

	Company	Group
Number of Consecutive Fiscal Years	1	1
Number of fiscal years audit by the current audit firm/ number of fiscal years the Company has been audited (in %)	3,85%	3,85%

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

Yes ✔ No ☐

Explanation of Procedure

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

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

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

I. outside advice is not necessary for the adequate performance of duties assigned to Outside Directors;
II. the size or the importance of the problem relative to the financial condition of the Company does not justify the cost;
III. the assistance or advice required can be suitably provided by the Company's experts and technical personnel; or
IV. confidential information may be put at risk.

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

Yes ✔ No ☐

Explanation of Procedure

Article 13 of the Board Rules establishes that the Board must prepare an annual schedule of regular meetings and approve a formal list of issues to discuss at these meetings, and that notice of these meetings must always include the agenda for the meeting and be accompanied by any relevant information on the issues to be discussed. Notice of meetings is to be given, except in urgent circumstances or when otherwise necessary, no less than three days prior to the date of the meeting. In accordance with Article 10 of the Board Rules, the Chairman of the Board must ensure that Directors receive appropriate information on the issues to discuss with sufficient notice in advance of the meeting in question.

Article 25 of the Board Rules also establishes that all Directors have the authority to obtain information on any matter related to the Company, to examine the books, records, documents and any other material on the Company's operations, and to inspect all the Company's facilities.

Additionally, Article 28 of the Board Rules establishes that all Directors are responsible for the diligent procurement of information on the Company's condition and development, as well as preparing for the meetings of the Board and any committees to which they belong.

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

Yes ✔ No ☐

Explain the Rules

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

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

Yes ☐ No ☑

Name of Director	Criminal Charge	Remarks
-	-	-

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

Yes ☐ No ☐

Decision/Action Taken	Explanation
-	-

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

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

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

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

Number of Beneficiaries	13

Type of Beneficiary	Description of agreement
Executive Directors	The current Executive Chairman has a temporary right to severance equivalent to the difference between the vested amount accumulated in his Early Retirement and Long Term Savings Plan at the moment of termination of his business relationship with the Company and an amount equal to one year's total compensation. The contract of the CEO does not contain any golden parachute or severance clause.
Senior Managers	During 2016, three of the current senior managers had temporary decreasing severance clauses amounting to between 0.4 and 1.1 times their total annual compensation. This amount will decrease continuously and reach zero once the sum of (i) the vested amount for each one of them in their Long Term Early Retirement and Savings Plan, and (ii) the amount of severance to which they would be entitled in the event of termination of their prior employment relationship without cause, reaches the gross amount equal to 45 days' salary for each year of service counted from the date of hire, up to a maximum of 42 months' salary. The contracts of the other three senior managers of the Company include temporary severance clauses which provide for between one and two times their total annual compensation, which is extinguished after a transition period after their employment by the parent Company or once the severance to which they are legally entitled exceeds the minimum guaranteed amount.
Managers	The contracts of 6 managers of the Company include specific severance clauses which provide for compensation, in case of termination of their ordinary employment relationship neither for cause nor because of voluntary reSIgnation; these siseverance amounts are higher than would normally be payable in accordance with the Spanish labour law. However, these contracts are unique to the individual and the vast majority are in response to conditions negotiated for hiring on with the Company or are terms negotiated with third party companies that have become part of Indra.

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

	Board of Directors	Annual Shareholders Meeting
Body Authorizing the Severance Clauses	-	X

	Yes	No
Report made to the Annual Shareholders Meeting Regarding the Severance Clauses	X	-

C.2. COMMITTEES OF THE BOARD OF DIRECTORS

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

Executive committee

Name	Post	Category
Fernando Abril-Martorell Hernández	Chairman	Executive
Adolfo Menéndez Menéndez	Member	Dominical
Alberto Terol Esteban Esteban	Member	Independent
Daniel García-Pita Pemán Pemán	Member	Independent
Enrique de Leyva Pérez Pérez	Member	Independent
Ignacio Santillana del Barrio del Barrio	Member	Independent
Javier de Andrés González González	Member	Executive
Juan March de la Lastra	Member	Dominical

% of Executive Directors	25
% of Proprietary Directors	25
% of Independent Directors	50
% of Outside Directors	0

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

At its meeting held 26 May 2016, the Board of Directors unanimously resolved to create an Executive Committee to begin working 30 June 2016.

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

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

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

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

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

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

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

During fiscal 2016 the Executive Committee met on two occasions and dealt with, among other matters, the following: (i) analysis of operational matters of the Company; (ii) analysis of financial information; and (iii) follow up of the most important matters reported to the Board.

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

Yes ☑ No ☐

If Not, explain the composition of the executive committee by category of director

-

Audit committee

Name	Post	Category
Ignacio Santillana del Barrio	Chairman	Independent
Alberto Terol Esteban	Member	Independent
Enrique de Leyva Pérez	Member	Independent
Luís Lada Díaz	Member	Independent
Juan Carlos Aparicio Pérez	Member	Proprietary
Santos Martínez-Conde Gutiérrez-Barquín	Member	Proprietary

-	-
% of Proprietary Directors	33,33
% of Independent Directors	66,66
% of Outside Directors	0

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

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

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

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

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

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

a) Ensure that the Board is able to present financial statements in the auditors' report to the Annual Meeting which do not contain limitations or reservations. In those exceptional cases where a reservation might exist, the chairman of the committee as well as the auditors will clearly explain to the Shareholders the substance and the scope of said limitations or reservations.

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

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

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

The Activities Report of 2016, which will be published at the time of call of the Annual Shareholders Meeting, explains the activities of the Committee during the stated fiscal year.

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

Name of director with experience	Ignacio Santillana del Barrio
Number of years as chair	1 year, 6 months

Nomination and compensation committee

Name	Post	Category
Daniel García-Pita Pemán	Chairman	Independent
Isabel Aguilera Navarro	Member	Independent
Adolfo Menéndez Menéndez	Member	Proprietary
Rosa Sugrañes Arimany	Member	Independent
Santos Martínez-Conde Gutiérrez-Barquín	Member	Proprietary

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

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

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

This Committee is required to be chaired by an Independent Director. When the chairman is absent, meetings are to be chaired by the Independent Director named by the committee for this purpose. In any event, the Chairman of the Board – if Executive – or the CEO are to be consulted and called to meetings of the committee when it deliberates on issues relating to Senior Management other than themselves. Additionally, the Committee is to consult with the Chairman of the Board and the Company CEO particularly when matters relevant to Executive Directors are to be considered.

Notwithstanding any other tasks that may be assigned to it by applicable law, the mandate of the Nomination, Compensation and Corporate Governance committee is as follows:

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

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

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

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

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

f) Propose contract terms for senior managers.

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

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

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

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

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

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

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

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

The Activities Report of 2016, which will be published at the time of call of the Annual Shareholders Meeting, explains the activities of the Committee during the stated fiscal year.

Nomination committee

Name	Post	Category
-	-	-
-	-	-

-	-
% of Proprietary Directors	-
% of Independent Directors	-
% of Outside Directors	-

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

-

Compensation committee

Name	Post	Category
-	-	-
-	-	-

-	-
% of Proprietary Directors	-
% of Independent Directors	-
% of Outside Directors	-

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

-

Strategy committee

Name	Post	Category
-	-	-
-	-	-
-	-	-

-	-
% of Proprietary Directors	-
% of Independent Directors	-
% of Other Outside Directors	-
% Executive	-

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

At its 26 May 2016 meeting the Board of Directors unanimously resolved to eliminate the Strategy Committee and to create an Executive Committee, to begin work on 30 June 2016. The Strategy Committee did not meet during the first six months of the fiscal year.

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

Number of Female Directors

	Fiscal year t		Fiscal year t-1		Fiscal year t-2		Fiscal year t-3	
	Number	%	Number	%	Number	%	Number	%
Audit Committee	0	0	0	0	1	20	1	20
Nomination and Compensation Committee	2	40	2	40	1	20	2	40
Executive Committee	0	0	–	–	–	–	–	–

C.2.3. Repealed

C.2.4. Repealed

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

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

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

In accordance with the recommendation made by the CNMV, and as has been the case since 2003, the Report on the Activities of the Audit and Compliance Committee was published when Shareholders were called to the 30 June 2016 Meeting, along with the report of the Nomination, Compensation and Corporate Governance Committee.

C.2.6. Repealed

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

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

Procedure for Approval of Related Party Transactions

The Board of Directors, after review of a report from the Nomination, Compensation and Corporate Governance Committee is required to be aware of and to authorize before its execution any direct or indirect transaction between the Company and any related party, as that term is defined under law.

Transactions are judged from the point of view of equal treatment and market conditions.

In the case of recurring non significant transactions conducted in the Company's ordinary course of business and carried out under market conditions, authorization by the Board of the general line of activity is sufficient, where it is understood by "nonsignificant" that information regarding such transactions need not be separately published in order to give a fair representation of the entity's net worth, financial position or financial results.

The authorization referred to in the preceding paragraph shall not be required, however, when the non arms' length transaction in question meets all three of the following conditions:

• The transactions are carried out under conditions which are standard and of general application to a large number of clients;
• They are carried out under pricing regimens generally applicable for the good or service provided; and
• The amount does not exceed 1% of the annual consolidated revenues of the Company in the case of transactions with Shareholders or 20,000 € in the case of transactions with Directors.

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

Name of significant Shareholder	Name of Company within the Group	Nature of the Relationship	Type of Transaction	Amount (1000's of euros)
SEPI	VARIOUS GROUP COMPANIES	COMMERCIAL	Services Received (1)	846
SEPI	VARIOUS GROUP COMPANIES	COMMERCIAL	Services Rendered (2)	4. 601
CORPORACIÓN FINANCIERA ALBA S.A.	BANCA MARCH, S.A.	CONTRACTUAL	Others (3)	5
CORPORACIÓN FINANCIERA ALBA S.A.	BANCA MARCH, S.A.	COMMERCIAL	Operational Leasing Contracts	87
CORPORACIÓN FINANCIERA ALBA S.A.	BANCA MARCH, S.A.	COMMERCIAL	Services Rendered	3.131
CORPORACIÓN FINANCIERA ALBA S.A.	BANCA MARCH, S.A.	CONTRACTUAL	Commitments Undertaken (4)	2.439

(1) Services rendered to Indra necessary for the conduct of its business
(2) Services rendered by Indra in the ordinary course of business
(3) Commissions paid for management of loan guarantees
(4) Maximum amount of credit lines

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

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

Name of administrator or Manager	Name of the related party	Relationship	Type of Transaction	Amount (1000's of euros)
-	-	-	-	-

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

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

Name of Entity within the Group	Brief Description of the Transaction	Amount (1000's of euros)
-	-	-

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

Name of Party	Name of Party within the group	Nature of the Transaction	Type of Transaction	Amount (1000's of euros)
-	-	-	-	-

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Yes ☐ No ☑

Please name the listed subsidiaries:

Listed Subsidiaries
-

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

Yes ☐ No ☐

Describe the business relationship between the parent and subsidiary listed companies as well as between the subsidiary and other members of the Group
-

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

Measures taken to resolve potential conflicts of interest
-

E. RISK MANAGEMENT AND CONTROL SYSTEMS

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

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

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

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

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

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

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

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

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

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

In March 2016 the Board of Directors reviewed the updated risk management and control policy of Indra and formally approved the Policy in the terms proposed by the Audit and Compliance Committee.

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

The Risk Management System methodology establishes means for identification and evaluation of risks, as well as follow-up on control activities and defined action plans, allowing reasonable management of the risks to which the Company is exposed.

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

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

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

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

For its part, Indra Senior Management has the responsibility of promoting a culture of risk management at all levels, defining the functions and responsibilities within the framework of the Risk Management and Control System, and supervising action plans and work stemming from the process of Risk Management.

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

The Global Risk function is an integral task of Internal Audit management, and is responsible for creating the Corporate Risk Map as well as following up on action plans tasked to each risk manager.

During fiscal 2016 the Audit Committee analyzed the Global Risk Inventory and was periodically informed regarding the review and evaluation process, as well as its impact on the global risk map.

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

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

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

Compliance Risks

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

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

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

External Risks

The difficulty in adapting to the environment or market within which Indra operates, including those which arise from being present in particular countries or geographic zones.

The national and international economic environment in which Indra operates constitutes a significant risk. The deceleration of emerging economies where Indra does business also exposes the company to high risk.

Indra operates in sectors of increasing competitiveness which obligates it to robustly optimize material, human, technical and financial resources. A lack of foresight and investment in new technologies could impede adaptation, progress and achievement of strategic business objectives due to the entry of new competitors.

Financial Risks

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

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

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

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

Operational Risks

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

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

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

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

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

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

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

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

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

During the fiscal year, risks have materialized which could have a significant impact on Indra's activities, in the market and economic environments.

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

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

Indra has defined a series of actions contained in a plan for mitigating Indra's key strategic and operational risks.

In order to properly follow up on these actions, at the beginning of 2016 they were organized as projects and supervised by a Project Management Office (PMO). For each project a leader was chosen, a responsible team, objectives, and a timetable. The PMO makes weekly reviews of the progress of these projects and reports weekly to the Chairman and CEO, allowing weekly monitoring of the development of each project and the ability to take corrective actions. The Management Committee gets monthly reports.

These projects are structured in such a way as to exhaustively document all actions, milestones and indicators, permitting monitoring of the progress of the various plans and risks encountered in implementation.

By way of illustration of the scope and depth of the plan, one can see the principal strategic projects below, and confirm how transformation, management and mitigation of risks at Indra are covered:

- Definition of functions and responsibilities among corporate, market, horizontal and production unit, and geographical operations, in order to improve organizational outcomes
- New Risk Control, Profitability and Cash Flow models (Operational Execution and Follow-up Committee, Business Committees, Treasury Committees, new reporting tools
- Talent management plan (Career Plans, Corporate University, Talent Generation)
- Strategy and new innovation model
- Plans for distribution, transformation and development of IT, Defense, ATM and Transportation offerings
- Business development plans, Charts of Account, and Go-to-Market Strategy
- Plans to improve the delivery model, standardization and automation of production and fabrication
- Strategy and development model for purchasing
- Plans for improving margins and efficiency and short term cost reduction

    - Pyramid optimization plan
    - Creation of a new shared services center
    - Opex reduction plan
    - Reduction/closure plan for low profit operations

It is important to point out that many of these initiatives have already been implemented in their entirety or nearly so, are highly transformational, generate significant savings, and are focused on the detection and mitigation of the risks defined earlier.

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

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

F.1. Control environment

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

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

Board of directors

The Indra Board of Directors is ultimately responsible for the existence and maintenance of an adequate and effective ICFR by exercising supervision of it through the Audit and Compliance Committee.

To such ends, the Board is responsible for supervising and approving, among other things:

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

Audit and Compliance Committee

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

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

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

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

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

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

• As regards the external auditor: (i) in the event of resignation of the external auditor, examine the circumstances which led to it; (ii) ensure that the compensation paid to the external auditor does not compromise its quality or independence; (iii) ensure that the Board file a Report of Material Fact to the CNMV when there is a change of auditors, along with a statement relating any disagreements that arose with the outgoing auditor and, if applicable, the contents thereof; and (iv) ensure that the external auditor hold an annual meeting with the entire Board of Directors in order to report to it regarding the work performed and evolution of the accounting situation and of risks to the Company; and (v) ensure that the Company and the external auditor comply with applicable law regarding delivery of services other than auditing, regarding limits on the concentration of the auditor's work and, in general, other rules regarding the independence of the auditors.

The Chairman of the Committee is to be an Independent Director and is chosen taking into account his or her knowledge and experience in Accounting and Auditing.

Treasury and Finance

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

Internal Audit and Global Risks Department

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

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

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

Transformation, Organization and Process Department

The Transformation, Organization and Process Department manages and updates the process map.

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

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

As regards organizational structure, Board Rules provide the following:

The Board of Directors will submit for approval to the Annual Shareholders Meeting, at least every three years, the compensation policy for Directors, which policy shall be consistent with the compensation scheme set forth in the Bylaws. In said compensation policy, the Shareholders shall establish the maximum amount of compensation for Directors for performance of their duties as Directors, which shall remain in force so long as there is no resolution to amend it at an Annual Shareholders Meeting. With advice from the Nomination, Compensation and Corporate Governance Committee, the Board will ensure that the compensation of Directors is sufficient for the dedication, qualifications and responsibility that the position requires, but at the same time does not constitute, in the case of Independent Directors, an impediment to their independence.
The Board of Directors concentrates on matters of general control and supervision, ensuring that executive bodies and the management team to whom day to day Company management have been delegated act in accordance with approved strategies and stated goals. This task routinely requires design and review of organizational structure as well as definition of lines of responsibility and authority by the Chairman and his Steering Committee.

The Head of Control, Planning and Procedures is responsible for the design, establishment, review and constant updating of Indra's corporate structure, and consequently for those units involved in the process of creating financial information.

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

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

Code of Ethics and Legal Compliance

Spurred by regulatory changes introduced in Spain regarding criminal sanctions for artificial persons, in 2015 an update of the global model for prevention of Company criminal risks was initiated, which culminated in 2016 with the updating of said model in all of the international affiliates.

The most recent update of the Code of Ethics and Legal Compliance was approved by the Board in December 2015. Said Code of Ethics is intended to provide a strict framework for administrators, senior managers, employees, representatives, providers, and other third parties who render services to Indra or who, in any form, act on behalf of Indra, independent of the place where they conduct business.

The Code of Ethics and Legal Compliance is published on the internal and external webpages of the Company and in the Vendors portal.

The Code of Ethics contains:

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

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

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

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

Regarding communication of improprieties to the Compliance Unit, after proper investigation, it reports to the Audit and Compliance Committee and proposes, when appropriate, disciplinary measures or other measures; such disciplinary measures to be adopted with the involvement of Human Resources.

> The Canal Directo places information received in a personal file. Personal information included in communications received through the Canal Directo is placed in a file configured and managed in accordance with applicable law regarding the protection of data. The information is kept as long as necessary to allow communication, with all personal information in the file deleted no more than two months after closure of the file where the information is found.
> The Audit and Compliance Committee reports at least once a year to the Board of Directors regarding the function of the model for Prevention of Criminal Risks.

Training Programs

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

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

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

• Course in Holistic Management of Risks
• Course in Advanced Accounting
• Course on International Financial Information Standards
• Analysis of Financial Statements

F.2. Assessment of Financial Information Risks

Report on at least the following:

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

• Whether the process exists and is documented.

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

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

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

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

•Identification and description of critical risks

For each significant process and sub process, those in charge of Global Risks together with those responsible for the various processes identify critical risks with potential impact on financial information as well as other risks which could significantly affect the financial statements.

Risks for each process are to be described specifically and later classified in accordance with the Indra Risk Inventory which is periodically updated and evaluated based on risk management implemented by the Company.

Risk identification is to take into account all of the risks which impact financial information processes (strategic, operations, financial and compliance risks).

• Identification of the objectives of the financial information associated with each epigraph/process/sub process. Includes the objectives of the financial information associated with each critical risk (existence and occurrence, integrity, assessment, presentation, breakdown and comparability).

•Identification of critical control activities. For each critical risk identified, a control activity should be designed and implemented to mitigate it.

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

The goal of the evaluation process for financial risk is to establish and maintain an effective process for identifying, analyzing, and managing relevant risks in preparation of the Financial Statements.

Risks are classified according to type:

Compliance Risks

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

External Risks

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

• Cultural change
• Market dynamics
• Mergers and acquisitions
• Product and project portfolio

Financial Risks

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

• Accounting and presentation of financial information
• Liquidity
• Credit
• Markets

Operational Risks

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

Included are technology risks related to information systems.

These risks can be classified as:

- Purchasing
- Communication
- External events
- Project management
- Human resources
- Systems
- Project planning
- Integrity of information
- Business continuity
- Information security
- Quality/service/products/supply
- Tax management
- Investor and shareholder relations
- Contractual commitments

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

- Rights and responsibilities
- Breakdown and comparability
- Existence and occurrence
- Completeness
- Presentation

The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, or special purpose entities.

The Group maintains a continuously updated company registry which contains all of the equity interests of any type of the Group, whether the interest is direct or indirect, as well as any entity over which the group may exercise control independent of the legal means by which such control may be exercised including, should they exist, holding companies as well as special purpose entities. Management and update of this registry is done in accordance with procedures dictated by the Company Guideline Consolidación y Elaboración de la Información Financiera ("Consolidation and Creation of Financial Information").

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

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

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

The identification of risks should take into account all of the risks which impact the process of creating financial documents, among them:

- Strategic risks associated with the definition of objectives and structure of the environment, including external fraud.
- Operational risks which include, among other things, those related to process efficiency and efficacy, key personnel, productivity and hiring, internal communication, assignment of resources, integrity of information and business continuity.
- Financial risks related to accounting of operations, presentation of financial information, or operational tax strategy.
- Compliance risks associated with regulations both external (legal, environment, tax) and internal (ethics codes).

Within the design of the risk management process related to the generation of financial information, the following objectives were taken into account:

- Definition of processes and sub processes related to the ICFR.
- Definition and analysis of control activities for each specific risk

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

- Control responsibility
- Control frequency
- Procedure and/or application where it may be found
- If the control is automatic and/or manual
- If the control is preventative or detective.
- The ICFR is formalized, therefore, as a body of procedures and matrices.

Which governing body within the company supervises the process?

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

F.3. Control Activities

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

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

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

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

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

The Audit and Compliance Committee oversees the financial information that is presented to it. Upon closing the fiscal year, the Audit and Compliance Committee also receives information prepared by the Group's external auditors on the results of their work.

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

Indra has a Model of Internal Control of Financial Reporting based on the COSO methodology, which has the following goals:

- Effectiveness and efficiency of operations.
- Preservation of assets.
- Reliability of financial information.
- Compliance with applicable laws and regulations.

ICFR has been implemented in the business units in Brazil, Chile, Spain, Colombia, Italy and Mexico. Indra's ICFR model has a risk and financial control matrix which includes business processes relevant to preparation of the financial statements for the Group, General IT Controls, and Entity Level Controls:

- Transactional (Purchasing)
- Personnel administration
- Data analysis and reporting
- Compensation and benefits
- Consolidation and preparation of financial information
- Financing
- Mergers, acquisitions and sales
- Sales management
- Program and operations management
- Treasury management
- Legal management
- Follow-up and control
- General IT Controls

The ICFR control matrix consists of 218 defined controls at the process level (including controls at the corporate level and those replicated in the various countries, 772 in total), 44 entity level controls, and 27 General IT controls.

Indra has implemented ICFR in the following group companies: Indra Sistemas, S.A; Indra Business Consulting, S.L; Indra Software Labs, S.L; Prointec, S.A; Indra BPO Servicios, S.L; Advanced Logistics Group, S.A; Indra Sistemas de Comunicaciones Seguras, S.L; Indra Emac, S.A; Indra Sistemas de Seguridad, S.A; Inmize Capital, S.L; Inmize Sistemas, S.L; Indra BPO S.L; I-3 Televisión, S.L; Tower Air Traffic Services, S.L; Teknatrans Consultores, S.L.U; Indra Corporate Services, S.L.U; BPO Hipotecaria S.L.U; Indra Advanced Technology, S.L; Indra Sistemas México, S.A. de C.V; Azertia Tecnología de la Información México S.A. de C.V; Soluziona México, S.A. de C.V.; Indra Business Consulting Alg México, S.A. de C.V; Ingeniería de Proyectos de Infraestructuras Mexicanas, S.A; Indra Corporate Services Mexico, S.L; Indra Brasil Soluciones y Servicios, S.A; Indra Tecnología Brasil Ltda; Indra Company Brasil Tecnología Ltda; Indra Italia Spa; Indra Colombia Ltda; and Indra Sistemas de Chile, S.A.

The ICFR was impacted in 2016 by implementation of the Global Business Service model in Spain and Latin America as regards administrative and accounting processes. The evolutionary process in which the Company finds itself immersed, especially as regards adiminstrative, accounting and control processes, demands a revision of a portion of the controls whose design may have been rendered obsolete or insufficiently suited to current rules and practices.

The ICFR of Indra Group depends on the following fundamental concepts:

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

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

b) Processes:

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

• Strategic: Processes for analyzing the needs and constraints of the Company, the market and shareholders, by which the business develops its strategies and defines objectives.

• Key: Processes essential to the conduct of business, which directly impact the delivery of services and the satisfaction of the end user.

•Support: Those processes which provide the services, means and support necessary so that Key processes may be accomplished.

• Evaluation, Assurance and Improvement: Processes necessary for the control and improvement of the management system.

These 4 categories contain the processes/sub processes which affect practically all of the organizational units of the Indra Group.

The Transformation, Organization and Process Department manages and updates the Process Map.

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

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

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

• Control Objectives: Needs for control that must be satisfied in each step of the business cycle or process, in accordance with internal control definitions. In this way, they are used to verify and evaluate the accuracy of accounting and other information and determine whether all company financial information is provided to its end users, and cover the areas of completeness, closing, delivery, posting, validity and valuation.

• Risk: It is possible that an event or action may affect the ability of the organization to meet its financial information objectives and/or successfully realize its strategies.

• Control Activities: Policies, procedures and practices applicable to Company personnel, application systems, and other resources in place to ensure that control objectives are reached and that risk mitigation strategies are executed. Process control activities are to be incorporated in operational processes and serve as a means for appropriately managing risk and are focused on its prevention, detection and correction. In the specific case of IT, control activities are known as General IT Controls ("GITC"). Control activities are designed to be preventative or detective and manual (human based) or automatic (machine based).

Process and GITC activities are the backbone upon which the entire control model is built and cover the following concepts:

- Integrity and ethical values
- Commitment to professional competence
- Management direction and style
- Organizational Structure
- Assignment of authority and responsibility
- Human Resources policies and practices

Process control and GITC activities ensure that all of the control objectives for Indra found in the policy guide Elaboración, mantenimiento y supervisión del SCIIF ("Creation, Maintenance and Oversight of ICFR") are followed during the ordinary course of business and for every section of the financial statements.

All of the information regarding the Internal Control model is posted on the Group's internal website.

The policy guide "Creation, Maintenance and Oversight of ICFR," approved by Senior Management, the Audit and Compliance Committee, and the Board of Directors provides that, by means of a process of continuous improvement, those responsible will create, revise and implement control and procedure activities without obviating the need to perform an annual evaluation of those activities in order to make necessary changes and adjustments.

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

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

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

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

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

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

The GITC matrix is aligned with control models for other business cycles created by Indra group and built around the following areas:

- Change control
- Contingency and continuity plans
- Security of access
- Data processing centre

These control areas include 27 controls. The controls are classified as: automatic or manual, preventative or detective, and key or not key.

There are policies and procedures which establish controls over:

- Restriction of access to systems, thereby avoiding unauthorized access or program modifications which might affect the integrity, completeness and reliability of financial information
- Security in installations which house the systems, guaranteeing that access to them is limited to authorized personnel.
- A proper segregation of functions, with the goal of guaranteeing secure access to accounting information systems.
- Availability of information, ensuring that financial data are complete, valid and accurate.
- Proper incident management allowing rapid resolution and minimum impact.
- Monitorization of operations, ensuring that they are executed thoroughly and on time. In the event of an incident, such is resolved allowing work to restart and correctly executed.

Within their purview is the definition and oversight of security policies for applications and infrastructure. Pursuant to said policies, Indra has implemented an Internal Control model for the IT area.

The Internal Control model at Indra covers IT processes which make up the IT environment, architecture and infrastructure as well as applications that affect transactions which directly affect primary business processes and therefore has an impact on financial information and Company closing procedures. The above named controls can be implemented automatically within the IT programs themselves or manually.

The Group has available an Information Security area reporting to the Systems are and whose purpose it is to be vigilant regarding security of all IT processes, ensuring availability, reliability and integrity of information.

Information Security Policy at Indra, published on the intranet, has as its objectives management of IT security and strategic alignment with business goals, guarantee of the confidentiality, completeness and availability of information, and all of the activities involved in achieving these objectives. This policy is mandatory at all Markets and Areas of the company, as well as at all of the businesses, offices and affiliates of Indra, and knowledge of and compliance with it is obligatory for any person who makes use of the Information Systems (employees, interns, third patties, etc.).

This Policy applies at all information development stages (generation, distribution, storage, handling, transfer and destruction) of the Systems which process it. It entails all of the Information Systems and services at Indra and all support servers as well as the environment and applications which affect business processes of the Company, covering therefore relevant processes in the creation and publication of financial information.

Information security is an integral part of all of the processes in the organization and is included in the strategic planning for the Company.

Information security strategy as defined by Indra is based on five fundamental pillars:

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

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

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

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

• Audit process and compliance follow-up. It is the process of verification of compliance and is done internally by means of continuous supervision and monitorization processes, and run round the clock with the goal of identifying possible security alerts or violations.

F.3.3.Internal control policies and procedures intended to guide the management of subcontracted activities and those of third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, that may materially affect financial statements.

Indra has available control and follow up mechanisms for subcontractor activities with the goal of monitoring and minimizing business risk for the Company. Among others, there is an internal procedure for hiring external advisors which establishes the level of approval required as a function of the amount involved. Results or reports on contracts for accounting, tax or legal services are supervised by the head of Finance and Procurement and by the head of the Legal Department and other departments when deemed necessary.

F.4 Information and Communication
State whether the Company has at least the following, describing its principle characteristics:

F.4.1.A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organization, as well as an up to date accounting policy manual distributed to the business units through which the Company operates.

Responsibility for application of the Accounting Policies of the Group is the same for the entire geographic reach of the Indra Group and is found in Treasury and Finance.

The Department of Administration keeps all those responsible for preparing financial information in the various business units of the Group informed of changes in rules, resolves doubts when they exist and receives information from companies in the Group necessary to assure consistent application of Accounting Policies of the Group and to determine the effect of application of new accounting rules.

On those occasions when application of an accounting rule is especially complex, the Treasury and Finance Department of the Indra Group informs the external auditors of the conclusions drawn from the Group's accounting analysis and solicits their opinion regarding the conclusions drawn.

Accounting policies at Indra are developed based upon International Norms for Financial Information adopted by the European Union and found in a document called Manual de Contabilidad ("Accounting Manual"). This document is analyzed periodically by the Administrative Services Centre and is published on the Intranet.

F.4.2. Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

Grupo Indra has a defined formal feature for the preparation of financial information, which includes closing of the books for all of the Group companies as well as the consolidation process for the Company. The fact that the major companies in the group use a common accounting system platform (SAP), allows the guarantee of better control of standardized closing processes as well as controls over supervision of system access by different users, verifying that there is no conflict in access authorization either internally or for later review by the external auditor. Within the system there are controls (automatic, semiautomatic and manual) which permit validation and assurance of consistency of handled information.

Existence of the same account charts for reporting for all of the entities in the group, a specific closing calendar and subsequent reporting to the company matrix, as well as the use of obligatory closing exchange rates when converting the balance sheet and the profit and loss statements to the euro for reporting, work together efficiently to improve the quality level and homogeneity of information.

The uploading of monthly reporting information is carried out by the same Companies in Datamart. This tool permits centralization of all of the resulting financial information of Group companies in a single system.

Most of the time, input of the information to the system is done automatically from the Group's computerized financial system (SAP).

F.5 Supervision of System Performance
Describe at least the following:

F.5.1. The activities of the Audit Committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the Committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the fiscal year and the procedure through which the person responsible for doing the assessment reports on its results, whether the Company has an action plan describing possible corrective measures, and whether its impact on financial reporting is considered.

The Audit and Compliance Committee supervises the proper functioning of ICFR through Internal Audit, and has evaluated its design and operational effectiveness.

The internal audit function is carried out by the Internal Audit Department of the Group, which reports to the Audit and Compliance Committee. This hierarchical structure is designed to permit Internal Audit to remain structurally independent and promote direct communication to and from the Audit and Compliance Committee.

The function of Internal Audit, through a team located at Corporate as well as the business unit in Mexico, reasonably ensures performance of the internal control system, supervising and evaluating the design and efficacy of the risk management system applied at the business.
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As regards the ICFR in particular, Internal Audit performs an annual review of the design and effectiveness of the control activities regarding financial information. Pursuant to these reviews, Internal Audit sends reports on possible shortcomings in internal control that they have detected to those responsible for these activities, to Senior Management, and to the Audit and Compliance Committee, as well as action plans adopted by the Company for their mitigation.

All the controls functioned as designed, but some control weaknesses and opportunities for improvement which did not significantly affect the quality of financial information were detected and have resulted in action plans following the policy of continuous improvement which characterizes Indra Group. During periodic tests of the ICFR, the Internal Audit Department will test implementation of said action plans.

The scope of the ICFR evaluation carried out during the fiscal year covers business units in Brazil, Chile, Colombia, Spain, Mexico and Italy, as each business unit with the biggest impact on sales of the group were the subjects of review, making up 10 companies. In total, 843 control activities have been defined, and for each of them those responsible for the controls at the Corporate and Business Unit levels have been defined.

F.5.2. If there is a procedure by which the account auditor (in accordance with that contained in the Normas Técnicas de Auditoría ("Auditing Standards"), internal audit and other experts may communicate with senior management and the Audit Committee or Managers of the entity regarding significant weakness in internal control identified during the review of the annual accounts or any others they have been assigned. Additionally, state whether a plan of action is available for correcting or mitigating any weaknesses found.

All of the deficiencies detected by the Internal Audit Department during the course of their work were subject to recommendations and action plans agreed to with the audit subject. The Internal Audit Department supervises the implementation of agreed upon actions and reports their status to the various governing bodies of Grupo Indra (primarily the Audit and Compliance Committee).

The procedure for discussing identified significant weaknesses in internal control is that of meetings between the Audit and Compliance Committee and the external auditors, internal auditors, and the department responsible for producing financial information.

Consistent with this, the account auditor meets annually with this Committee for the purpose of presenting recommendations related to weaknesses in internal control identified during the process of reviewing the annual financial statements.

F.6. Other Relevant Information

N/A

F.7. External Auditor´s Report

Report from: Deloitte, S.L.

F.7.1. If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

With the goal of improving the transparency and quality of public information it sends out, Indra has gone beyond its legal obligations and the recommendations of the Working Group on Internal Control of Financial Information, and:

a) prepared this description of its ICFR following the 16 basic indicators recommended in Section III of the Working Group Document;

b) issued a certification verified by the chief executive and the CFO in which they explicitly acknowledge: (i) their responsibility for establishing and maintaining an adequate ICFR for the entity, specifying the internal control framework used in order to evaluate the effectiveness of the ICFR (Internal Control – Internal Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission – COSO -) and (ii) that the ICFR of the Indra Group is effective as of the close of fiscal 2016. Certification attached;

c) considered it appropriate to request that the external auditor issue a report in which the auditor renders an opinion, within a reasonable degree of certainty based upon generally accepted auditing standards and using as a reference a generally recognized internal control framework, whether the design and performance of the ICFR of the Indra Group is effective as of the close of fiscal 2016, which is attached to this Annual Report on Corporate Governance.

As stated earlier, there exists no legally binding regulation which establishes the minimum requirements for companies in describing their ICFR.

Future regulations issued regarding information about ICFR that listed companies must publish may cause a change in the information contained in this report as they relate to breakdown or informational requirements.

G. EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Specify the Company's level of compliance with recommendations from the Unified Code of Good Governance.

In the event that a recommendation is not followed or followed only partially, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company´s acts. General explanations are not acceptable.

1. That the Bylaws of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

Complies ✓ Explanation ☐

2. That when the parent company and a subsidiary are listed on the stock exchange, both should publicly and specifically define:

a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other Group companies;

b) The mechanisms in place to resolve any conflicts of interest that may arise.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ✓

3.That, during the course of the annual shareholders' meeting, as an adjunct to the distribution of a written annual report on corporate governance, that the chairman of the board of directors make a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:

a) Changes which have occurred since the last Annual Shareholders' Meeting.

b) Specific reasons why the company did not follow any of the recommendations of the Code of Corporate Governance and, if so, the alternative norms which were followed instead.

Complies ✓ Complies Partially ☐ Explanation ☐

4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing abuse of markets and gives equal treatment to similarly situated shareholders.

And that the company has made such policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

Complies ✓ Complies Partially ☐ Explanation ☐

5. That the Board of Directors should not propose to the Annual Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights that the company immediately publish reports on its web page regarding said exclusions as referenced in applicable corporate law.

Complies ✓ Complies Partially ☐ Explanation ☐

6.That listed companies which draft reports listed below, whether under legal obligation or voluntarily, publish them on their web page with sufficient lead time before the Annual Shareholders' Meeting, even when their publication is not mandatory:

a) Report regarding the auditor's independence.
b) Reports regarding the workings of the audit committee and the nomination and compensation committee.
c) Report of the audit committee regarding related party transactions
d) Report on the corporate social responsibility policy.

Complies ✓ Complies Partially ☐ Explanation ☐

7. That the company transmit in real time, through its web page, the proceedings of the Annual Shareholders' Meetings.

Complies ☑ Explanation ☐

8. That the Audit Committee ensure that the Board of Directors present financial statements in the Audit Report for the Annual Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the Audit Committee and the auditors clearly explain to the shareholders the content and the scope of said qualifications or reservations.

Complies ☑ Complies Partially ☐ Explanation ☐

9. That the Company permanently maintain on its web page the requirements and procedures for certification of share ownership, the right of attendance at the Annual Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies ☑ Complies Partially ☐ Explanation ☐

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the Annual Shareholders' Meeting, the company:

a) Immediately distribute the additions and new proposals.
b) Publish the model attendance credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.
c) Submit all of these agenda items or alternate proposals to a vote and apply the same voting rules to them as are applied to those drafted by the board of directors including, particularly, assumptions or default positions regarding interpretation of votes.
d) That after the Annual Shareholder Meeting, a breakdown of the results of said additions or alternative proposals be communicated.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ☑

11. That, in the event the company intends to pay for attendance at the Annual Shareholders' Meeting, that it establish in advance a general policy of long term effect regarding such payments.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ☑

12. That the Board of Directors complete its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it be guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximization of the business' economic value.

And that in pursuit of the company's interest, that in addition to complying with applicable law and rules and in engaging in behaviour based in good faith, ethics and a respect for commonly accepted best practices, that it seek to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies ☑ Complies Partially ☐ Explanation ☐

13.That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.

Complies ☑ Explanation ☐

14. That the Board of Directors approve a selection policy for directors that:

i) Is concrete and verifiable.
ii) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the board of directors.
iii) Favours diversity in knowledge, experience and gender.

That the resulting prior analysis of the needs of the board of directors is recompiled in the supporting report from the appointment committee published upon call of the annual shareholders' meeting submitted for ratification, appointment or re-election of each director.

And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors represent, at a minimum, 30% of the total number of members of the board of directors.

The appointment committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Report on Corporate Governance.

Complies ☑ Complies Partially ☐ Explanation ☐

15. That proprietary and independent directors constitute a substantial majority of the board of directors and that the number of executive directors be the minimum necessary, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

Complies ☑ Complies Partially ☐ Explanation ☐

16. That the percentage of proprietary directors divided by the number of non-executive directors not be greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

a) In companies with high market capitalization in which interests that are legally considered significant are minimal.
b) In companies where a plurality of shareholders represented on the board of directors is not related to one another.

Complies ☑ Explanation ☐

17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company is not a high market capitalization company or in the event that it be a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represent at least a third of the total number of directors.

Complies ☑ Explanation ☐

18. That companies publish and update the following information regarding directors on the company website:

a) Professional profile and biography.

b) Any other boards to which the director belongs, regardless of whether the companies are listed, as well as any other compensated activities engaged in, regardless of type.

c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.

d) The date of their first appointment as a director of the company's board of directors, and any subsequent re-election.

e) The shares and options they own.

Complies ☑ Complies Partially ☐ Explanation ☐

19. That the annual report on corporate governance, after verification by the appointment committee, explain the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ☑

20. That proprietary directors representing significant shareholders must resign from the board if the shareholder they represent alienates its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ☑

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the bylaws unless the Board of Directors finds just cause and a prior report has been prepared by the appointment committee. Specifically, just cause is considered to exist if the director takes on new duties or obligates himself or herself to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her position, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public share offer, joint venture or similar transaction entailing a change in the shareholding structure of the company, provided that such changes in the structure of the board are the result of the proportionate representation criteria set forth in Recommendation 16.

Complies ☑ Explanation ☐

22. That companies establish rules requiring that directors inform the board of directors and, where appropriate, resign from their positions, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the crimes set out in corporate law, the board of directors must investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her position. And that the board of directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies ☑ Complies Partially ☐ Explanation ☐

23. That all directors clearly express their opposition when they consider any proposal submitted to the board of directors to be against the company's interests. This applies especially to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the board of directors.

Furthermore, when the board of directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next Recommendation.

This recommendation also applies in the case of the secretary of the board of directors, despite not being a director.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ☑

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the board of directors. Irrespective of whether the resignation has been reported as a material event, it must be included in the Annual Corporate Governance Report.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ☑

25. That the Appointment Committee ensure that non-executive directors have sufficient time in order to properly perform their duties.

And that the board rules establish the maximum number of company boards on which directors may sit.

Complies ☑ Complies Partially ☐ Explanation ☐

26. That the Board of Directors meet frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the fiscal year and allowing each director individually to propose agenda items which do not appear originally.

Complies ☑ Complies Partially ☐ Explanation ☐

27. That director absences occur only when absolutely necessary and be quantified in the annual report on corporate governance. And when absences occur, that the director deliver a proxy with instructions.

Complies ☑ Complies Partially ☐ Explanation ☐

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the board of directors, that upon request by the protesting party such concerns be included in the minutes.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ☑

29. That the company establish adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, outside advice at company expense.

Complies ☑ Complies Partially ☐ Explanation ☐

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require

Complies ☑ Complies Partially ☐ Explanation ☐

31. That the agenda for meetings clearly indicate those matters about which the Board of Directors are to make a decision or resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the board of directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall by duly recorded in the minutes.

Complies ☑ Complies Partially ☐ Explanation ☐

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies ☑ Complies Partially ☐ Explanation ☐

33. That the Chairman, as the one responsible for the efficient workings of the board of directors, in addition to carrying out his duties required by law and the bylaws, should prepare and submit to the board of directors a schedule of dates and matters to be considered; organize and coordinate the periodic evaluation of the board as well as, if applicable, the chief executive of the company; be responsible for leading the board and the effectiveness of its work; ensure that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies ☑ Complies Partially ☐ Explanation ☐

34. That when there is a coordinating director, the bylaws or the board rules should confer upon him the following competencies in addition to those conferred by law: preside over the board of directors in the absence of the chairman and vice chairs, should there be any; reflect the concerns of non-executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the Chairman.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

35. That the secretary of the Board of Directors pay special attention that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the Company.

Complies ☑ Explanation ☐

36. That the Board of Directors meet in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:

a) The quality and efficiency of the Board of Directors' work.
b) The workings and composition of its committees.
c) Diversity of membership and competence of the Board of Directors.
d) Performance of the Chairman of the Board of Directors and the chief executive officer of the Company.
e) Performance and input of each director, paying special attention to those in charge of the various committees of the Board.

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointment committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the Appointment Committee.

Business relationships between the consultant or any member of the consultant's group and the company or any company within its group shall be broken down in the Annual Report on Corporate Governance.

The process and the areas evaluated shall be described in the Annual Report on Corporate Governance.

Complies ☑ Complies Partially ☐ Explanation ☐

37. That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable

38. That the Board of Directors must always be aware of the matters discussed and decisions taken by the Executive Committee and that all members of the Board of Directors receive a copy of the minutes of Executive committee meetings.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

39. That the members of the Audit Committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.

Complies ☑ Complies Partially ☐ Explanation ☐

40. That under the supervision of the Audit Committee, there be a unit which is in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chair of the board or of the Audit Committee.

Complies ☑ Complies Partially ☐ Explanation ☐

41. That the person in charge of the group performing the internal audit function present an annual work plan to the Audit Committee, report directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each fiscal year.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

42. That in addition to that contained in applicable law, the Audit Committee be responsible for the following:

1. With regard to information systems and internal control:

a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.

b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re-election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.

c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

2. With regard to the external auditor:

a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.

b) Ensure that the compensation paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.

c) Insist that the company file a Report of Material Fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.

d) Ensure that the external auditor hold an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.

e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding auditors' independence.

Complies ☑ Complies Partially ☐ Explanation ☐

43. That the Audit Committee may require the presence of any employee or manager of the Company, even without the presence of any other member of management.

Complies ☑ Complies Partially ☐ Explanation ☐

44. That the Audit Committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

45. That the risk management and control policy identify, at a minimum:

a) The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including among financial or economic risks, contingent liabilities and other off balance sheet risks.

b) Fixing of the level of risk the company considers acceptable.

c) Means identified in order to minimize identified risks in the event they come to pass.

d) Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.

Complies ☑ Complies Partially ☐ Explanation ☐

46. That under the direct supervision of the Audit Committee or, if applicable, of a specialized committee of the Board of Directors, there exists an internal control and management function delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:

a) Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.

b) Actively participate in the creation of the risk strategy and in important decisions regarding risk management.

c) Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.

Complies ☑ Complies Partially ☐ Explanation ☐

47. That members of the Appointment and Compensation Committee -- or of the Appointment Committee and the Compensation Committee if they are separate – are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to complete and that the majority of said members are independent directors.

Complies ☑ Complies Partially ☐ Explanation ☐

48. That high market capitalization companies have formed separate Appointment and Compensation committees.

Complies ☐ Explanation ☑ Not Applicable ☐

The Company has not considered it convenient to separate the current Nomination, Compensation and Corporate Governance Committee into two committees for the following reasons:

- It isn't justified by the volume of annual work they are called upon to do.
- It would unnecessarily increase the number of committee meetings and the corresponding compensation paid to members.

49. That the Appointment Committee consult with the Chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.

And that any director may ask the Appointment Committee to consider potential candidates he or she considers appropriate to fill a vacancy on the board of directors.

Complies ☑ Complies Partially ☐ Explanation ☐

50. That the Compensation Committee exercise its functions independently and that, in addition to the functions assigned to it by law, that it be responsible for the following:

a) Propose basic conditions of employment for senior management.

b) Verify compliance with Company compensation policy.

c) Periodically review the compensation policy applied to directors and senior managers, including compensation involving the delivery of stock, as well as guaranteeing that individual compensation be proportional to that received by other directors and senior managers.

d) Watch out that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.

e) Verify information regarding compensation paid to directors and senior managers contained in the various corporate documents, including the annual report on director compensation.

Complies ☑ Complies Partially ☐ Explanation ☐

51. That the Compensation Committee consult with the Chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies ☑ Complies Partially ☐ Explanation ☐

52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they be consistent with those which apply to legally mandated committees in accordance with the recommendations above, including:

a) That they be comprised exclusively of non-executive directors, with a majority of them independent.

b) That their chairmen be independent directors.

c) That the Board of Directors select members for these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the board of directors occurring after the committee's last meeting.

d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.

e) That their meetings be recorded and the minutes be made available to all directors.

Complies ☐ Complies Partially ☐ Explanation ☐ Not Applicable ☑

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the board of directors, which may be the audit committee, the appointment committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the board of directors pursuant to its powers of self-organization, to which shall be specifically given at a minimum the following responsibilities:

a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.

b) Supervision of the communication strategy and relationship with shareholders and investors, including small and medium sized shareholders.

c) The periodic evaluation of the adequacy of the company's corporate governance system, with the goal that the company promote social interest and take into account, where appropriate, the legitimate interests of other stakeholders.

d) Review of the company's corporate responsibility policy, ensuring that it is oriented towards value creation.

e) Follow-up of social responsibility strategy and practice, and evaluation of the degree of compliance.

f) Supervision and evaluation of the way relationships with various interest groups are handled.

g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational.

h) Coordination of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.

Complies ☑ Complies Partially ☐ Explanation ☐

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific interest groups and identifies at a minimum:

a) The objectives of the social corporate responsibility policy and the development of tools to support it.

b) Corporate strategy as it relates to sustainability, the natural environment and social issues.

c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of illegal behaviour.

d) Means or systems for monitoring the results of application of specific practices described in the immediately preceding paragraph, associated risks, and their management.

e) Means of supervising non-financial risk, ethics, and business behaviour.

f) Communication channels, participation and dialogue with interested groups.

g) Responsible communication practices which impede the manipulation of data and protect integrity and honour.

Complies ☑ Complies Partially ☐ Explanation ☐

55. That the company reports, in a separate document or within the management report, regarding matters related to corporate social responsibility, following internationally recognized methodologies.

Complies ☑ Complies Partially ☐ Explanation ☐

56. That director compensation be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.

Complies ☑ Explanation ☐

57. That only executive directors receive compensation linked to corporate results or personal performance, as well as compensation in the form of delivery of shares, options or rights to shares or instruments whose value is indexed to share value, or long term savings plans such as pension plans, retirement accounts or any other retirement plan.

Shares may be delivered to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The forgoing shall not apply to shares which the director may of needs sell in order to meet the costs related to their acquisition.

Complies ☑ Complies Partially ☐ Explanation ☐

58. That as regards variable compensation, the policies incorporate limits and administrative safeguards in order to ensure that said compensation is fairly consonant with the work performance of the recipients and are not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances. And, in particular, that variable compensation components:

a) Are linked to predetermined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.

b) Promote sustainability of the company and include non-financial criteria that are geared toward creating long term value, such as compliance with rules and internal operating procedures and its risk management and control policies.

c) Are based upon balancing short, medium and long term objectives, permit the reward of continuous achievement during a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-time, seldom occurring or extraordinary events.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

59. That a material portion of variable compensation components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

60. That compensation related to company results takes into account any reservations which may appear in the external auditors' report which would diminish said results.

Complies ☑ Complies Partially ☐ Explanation ☐ Not Applicable ☐

61. That a material portion of variable compensation for executive directors depend upon the delivery of shares or instruments indexed to share value.

Complies ✔ Complies Partially ☐ Explanation ☐ Not Applicable ☐

62. That once shares or options or rights to shares arising from compensation schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times annual fixed compensation, and the director may not exercise options or rights until a term of at least three years since their delivery has passed.

The forgoing shall not apply to shares which the director may of needs sell in order to meet the costs related to their acquisition.

Complies ✔ Complies Partially ☐ Explanation ☐ Not Applicable ☐

63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable compensation components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.

Complies ✔ Complies Partially ☐ Explanation ☐ Not Applicable ☐

64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual compensation and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.

Complies ✔ Complies Partially ☐ Explanation ☐ Not Applicable ☐

H. FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that have not been included in other sections of this report, but which are necessary in order to obtain a more complete and understandable picture of the structure and governance practices in the company or group, describe them briefly below.

2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

   Specifically, indicate whether the Company is subject to any corporate governance legislation different from than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. The company may also indicate whether it voluntarily complies with other ethical or best practice codes, whether international, industry based, or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010.

This Annual Corporate Governance Report was approved by the Board of Directors of the Company at the meeting held on 23 March 2017.

Indicate whether any Directors voted against or abstained from voting on this report.

Yes ☐ No ✔

Name of Director not Voting for Approval of this Report	Reasons (opposed, abstention, non-attendance)	Explanation of Reasons
-	-	-

03

Appendix

Deloitte.

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(Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.)

INDEPENDENT REPORT ON THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

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

Scope of the work

We have conducted the reasonable assurance review of the information relating to the System of Internal Control over Financial Reporting (ICFR) of Indra Sistemas S.A. and subsidiaries (the "Group"), contained in Note F of the accompanying Annual Corporate Governance Report for the year ended 31 December 2016.

The objective of this system is to contribute to the faithful representation of the transactions performed and to the provision of reasonable assurance in relation to the prevention or detection of any errors that might have a material effect on the consolidated financial statements.

The aforementioned system is based on the rules and policies defined by the Board of Directors of Indra Sistemas, S.A. in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A system of internal control over financial reporting is a process designed to provide reasonable assurance on the reliability of financial information in accordance with the accounting principles and standards applicable to it. A system of internal control over financial reporting includes policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail; (ii) guarantee that these transactions are performed only in accordance with the authorisations established; (iii) provide reasonable assurance that transactions are recognised appropriately to enable the preparation of the financial information in accordance with the accounting principles and standards applicable to it; and (iv) provide reasonable assurance in relation to the prevention or timely detection of unauthorised acquisition, use or sale of the company's assets that could have a material effect on the financial information. In view of the limitations inherent to any system of internal control over financial reporting, certain errors, irregularities or fraud might not be detected. Also, the projection to future periods of an evaluation of internal control is subject to risks, including the risk that internal control may be rendered inadequate as a result of future changes in the applicable conditions or that there may be a reduction in the future of the degree of compliance with the policies or procedures established.

Directors' Responsibility

The Board of Directors of Indra Sistemas, S.A. is responsible for maintaining the System of Internal Control over the Financial Information included in the consolidated financial statements and for evaluating its effectiveness.

Our Responsibility

Our responsibility is to issue a report on the independent reasonable assurance review of the effectiveness of the System of Internal Control over Financial Reporting (ICFR) based on the work performed by us.

Our work includes an evaluation of the effectiveness of the system of ICFR in relation to the financial information contained in the consolidated financial statements of the Indra Group as at 31 December 2016 prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Indra Group.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Our work was performed in accordance with the requirements established in Standard ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issuance of reasonable assurance reports.

This standard requires the planning and performance of procedures and the obtainment of sufficient evidence to reduce engagement risk to an acceptably low level in the circumstances of the engagement, and the issuance of a positive conclusion.

Independence

Our work was performed in accordance with the independence standards required by the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA), which are based on the fundamental principles of integrity, objectivity, professional competence, due care, confidentiality and professional behavior.

In accordance with International Standard on Quality Control (ISQC) 1, Deloitte has in place a global system of quality control which includes documented policies and procedures in relation to compliance with ethical requirements, professional standards and applicable legislation.

Conclusion

In our opinion, as at 31 December 2016, the Indra Group maintained, in all material respects, an effective System of Internal Control over the Financial Information contained in its consolidated financial statements, and this internal control system is based on the rules and policies defined by the Board of Directors of Indra Sistemas, S.A. in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Furthermore, the disclosures contained in the information relating to the system of ICFR which is included in Note F of the Indra Group's Annual Corporate Governance Report as at 31 December 2016 are in compliance, in all material respects, with the requirements established by the Corporate Enterprises Act, the Order ECC/461/2013, of 20 March and Circular 7/2015, of 22 December, as amended by the Spanish Securities Market Commission Circular 5/2013, of 12 June.

As described in the accompanying Note F of the Annual Corporate Governance Report, the system of ICFR does not include controls on companies integrated in the consolidated financial statements in which control is not exercised directly or indirectly since the strategic decisions regarding operational and financial activities require the unanimous consent of the parties sharing control. Nevertheless, Indra Group includes controls designed to protect the homogeneity, validity and reliability of the financial information submitted by the companies for inclusion in the consolidated financial statements. Consequently, our work did not include an examination of the effectiveness of the system of internal control over the generation of the financial information of the aforementioned companies included in the consolidated financial statements of the Indra Group.

DELOITTE, S.L.
(Signed on the original in Spanish)

F. Javier Peris Álvarez
23 March 2017