For the fiscal year ending
at December 31, 2018

indra

Index

1 Key highlights of year 2018 1
2 Analysis of consolidated financial statements 2
3 Human resources 5
4 Analysis by vertical markets 6
5 Analysis by geographical areas 10
6 Research and Development Activity 12
7 Average Payment Period to Suppliers 12
8 Main risks associated with the activity 13
9 Structure of Share capital 32
10 Other corporate information 33
12 Derivatives 33
13 Annual Corporate Governance Report 34
14 Treasury Shares 34
15 Non-financial information 34
16 Subsequent events 35
17 Alternative Performance Measures 35

1 Key highlights of year 2018

Net Order Intake increased by +9% in local currency (+6% in reported terms), with rises in both T&D and Minsait.

Revenues in 2018 rose by +6% in local currency (+3% in reported terms), chiefly due to the contribution of acquisitions, as well as the Group's organic growth.

EBITDA (Operating Result plus Amortizations) improved by +10% in 2018, equivalent to a margin of 9.4% in 2018 vs 8.8% in 2017.

EBIT (Operating Result) in 2018 totaled €199 million vs €196 million in 2017, a rise of +2%.

Cash generation totaled €168 million vs €186 million in 2017, very positive figures in both periods as a result of the strong cash generation recorded in the fourth quarter, once again with very positive contribution of working capital in the final days of the year.

Net Financial Debt fell to €483 million in December 2018 compared to €588 million in 2017. The Net Debt/LTM EBITDA ratio stood at 1.6x in 2018 vs 2.2x in 2017.

Main Figures	2018 (M€)	2017 (M€)	Variation (%) Rep./Local currency
Net Order Intake	3,437	3,248	5.8 / 9.1
Revenues	3,104	3,011	3.1 / 5.8
Backlog	4,065	3,612	12.5
Gross Operating Result (EBITDA)	293	266	10.1 / 11.2
EBITDA Margin	9.4%	8.8%	0.6 pp
Operating Result (EBIT)	199	196	1.9 / 3.0
EBIT margin	6.4%	6.5%	(0.1) pp
Net Profit	120	127	(5.6)
Net Debt Position	483	588	(17.9)
Free Cash Flow	168	186	(10.2)
Basic EPS (€)	0.680	0.738	(7.9)

2 Analysis of consolidated financial statements

Profit and Loss Account

Consolidated financial statement (M€)	2018	2017
Ordinary income	3,104	3,011
Works carried out by the group for its own non-current assets	61	38
Other sources income	24	20
Changes in inventories of finished and semi-finished products	22	9
Consumption and other supplies	(751)	(803)
Staff costs	(1,607)	(1,486)
Other Operating Costs	(561)	(522)
Other income/loss from non-current assets	1	(1)
Amortization	(94)	(71)
Operating Result	***199***	***196***
Financial income	7	7
Financial expenses	(42)	(43)
Other Financial Income/loss	0	3
Financial Incomelloss	***(35)***	***(32)***
Result of Companies Accounted for Using the Equity Method	(1)	(0)
Pre-tax income	***164***	***163***
Corporate tax	(42)	(34)
Profit or loss for the financial year	***122***	***129***
ProfitlLoss Attributed to the Parent Company	***120***	***127***
Profit or loss attributable to non-controlling interest	2	2
Basic earnings per share (in EUR)	0.6797	0.7378
Diluted earnings per share (in EUR)	0.6247	0.6721

The attached report and annexes are an integral part of the Consolidates Financial Statements

- 2018 revenues rose +6% in local currency (+3% in reported terms), mainly due to the contribution of acquisitions and the Group's organic growth. Revenues in the T&D division went up +1% in local currency. Transport & Traffic (+7% in constant currency) registered growth both in the Transport segment (relevant contracts in Asia, Middle East & Africa and America, with Ecuador standing out) and in the Air Traffic Management segment (European and international programs, especifically in Algeria and China). The growth posted by Transport & Traffic offset the slowdown of Defence & Security (-4% in local currency), chiefly impacted by the lower contribution of Eurofighter. Revenues in Minsait (IT) went up by +9% in local currency, mainly explained by the contribution of acquisitions, as well as by the positive dynamics in Energy & Industry (key clients in the Utilities and the Oil & Gas sectors, and the Hotels sector) and Financial Services (key clients and mid-sized banks), which showed double digit growth in local currency. Telecom & Media sales up +8%, while Public Administrations & Healthcare went down by -12%, affected by the lower contribution of Elections in Asia, Middle East & Africa.

- The works carried out by the Group for its own non-current assets totaled €61 million vs €38 million in 2017.

- The main operating expenses increased by +3% in 2018 in reported terms, standing at €2,896 million vs €2,803 million in 2017.

    - Personnel expenses increased by +8% in 2018, chiefly due to the impact of acquisitions (Tecnocom started to consolidate since 18th April 2017, along with the costs associated with its integration).

    - Consumption and other supplies (€751 million vs €803 million in 2017, a fall of -6%), as well as Other Operating Expenses (€561 million vs €522 million in 2017, a rise of +8%).

- The EBITDA (Operating Result plus Amortizations) stood at €293 million in 2018 compared to €266 million in 2016, representing an EBITDA margin (EBITDA over sales) for the year of 9.4% vs 8.8% in 2017.

- Amortization totaled €94 million in 2018 compared to €71 million recorded in 2017.

- The EBIT margin (Operating Result over sales) stood at 6.4% in 2018 vs 6.5% in 2017.

    - The EBIT Margin (Operating Result over sales) of T&D (Transport & Traffic and Defense & Security) fell by 13.2% in 2018 vs 11.6% in 2017.

    - The EBIT margin (Operating Result over sales) of the IT (Information Technology) segment fell by 2.2% in 2018 vs 3.2% in 2017.

- The Financial Income/loss worsened by €3m vs 2017 due to the lower financial income from the cash position in Brazil (€-2m), hedging adjustments (€-1m) on projects (changes in milestones and scopes), and the expense (€-1m) of higher amount of gross debt despite its lower cost. There has also been other financial income (€+2m), mainly dividends.

- The Tax Expenses was equivalent to a tax rate of 25% vs 21% in 2017. This increase is explained by the temporary non-deductible costs related to the CNMC fine as well as by impact of the optimization of the Company's taxable income in Brazil in 2017.

- The Group's net profit stood at €120 million and fell by -6% vs 2017, affected by the lower extraordinary tax income in Brazil with respect to 2017 (c. €20 million).

Statement of Financial Position and Cash Flow Statement

Statement of consolidated cash flows (M€)	**2018**	**2017**
Profit or loss for the financial year	122	129
Income tax	42	34
Pre tax income	**164**	**163**
Adjustments		
- Subsidies, Provisions, Results from fixed assets and Others	(42)	(5)
- Amortizations	94	71
- Results of associate companies	1	0
- Financial income/loss	35	32
Dividends received	**1**	**3**
Profit (Loss) from operations before changes in working capital	253	264
Changes in trade receivables and other items	7	(67)
Changes in inventories	(24)	(21)
Changes in trade payables and other items	45	124
Cash flows from operating activities	**28**	**36**
Corporate tax paid	(17)	(53)
Net cash flow from operating activities	**264**	**247**
Payments for the acquisition of non-current assets:		
Material	(25)	(14)
Intangible	(63)	(38)
Financial	(47)	(203)
Collections from sale of non-current assets:		
Financial	0	10
Interest received	6	7
Other cash flows from investment activities	9	12
Cash used in investing activities	**(121)**	**(225)**
Acquisition of shares of external partners	-	(5)
Change in treasury shares	(4)	(6)
Dividends of companies to non-controlling shares	(0)	(0)
Ordinary dividend of the Parent Company	-	-
Increase/(decrease) in bank borrowings of other Group companies	(64)	(52)
Increases in debt due to the issuance of obligations and other negotiable securities	324	-
Debt issuance with Parent Company's credit institutions	119	172
Return and amortization of obligations and other negotiable securities	(162)	(7)
Return and amortization of debts with Parent Company's credit institutions	(111)	(57)
Interest paid	(23)	(28)
Changes in other financial investments	0	0
Net cash used in financing activities	**80**	**17**
Net increase/(decrease) in Cash and other equivalent liquid assets	**223**	**39**
Initial balance of Cash and cash equivalent liquid assets	699	674
Effects of the exchange differences on cash and other equivalent	(5)	(14)
Net increase/(decrease) in Cash and other equivalent liquid assets	223	39
End balance of Cash and other equivalent liquid assets	**918**	**699**

The attached report and annexes are an integral part of the Consolidates Financial Statements

Statement of consolidated cash flows (M€)	2018	2017
Profit (Loss) from operations before changes in working capital	253	264
Cash flows from operating activities	28	36
Corporate tax paid	(17)	(53)
Payments due to purchases of non-current assets (excluding financial assets)	(88)	(52)
Proceeds from sales of fixed assets (excluding financial assets)		
Interest charged	6	7
Other cash flows from investing activities	9	12
Interest paid	(23)	(28)
Free Cash Flow (FCF)	***168***	***186***

- Free cash flow totaled +€168 million in 2018 vs +€186 million in 2017, very positive figures in both periods as a result of the strong cash generation recorded in the fourth quarter, once again with very positive contribution of working capital in the final days of the year.
- The Operating Cash Flow before net working capital reached €253m vs €264m in 2017.
- Cash Flow from operating activities amounted to €28m in 2018 (vs €36m in 2017), thanks to the positive contribution of changes in trade payables and other items.
- Tax payment was lower than 2017, due to some tax refunds from the Spanish tax authorities related to 2016 and 2017 fiscal years, which were collected in the first and fourth quarters.
- Payments for the acquisition of non-current assets (excluding financial assets) amounted to -€88 million vs -€52 million in 2017), in line with the higher investment commitments announced by the Company in the Strategic Plan 2018-2020.

3 Human resources

Final Workforce	2018	%	2017	%	Variation (%) vs 2017
Spain	26,622	61	25,081	63	6
America	13,071	30	11,326	28	15
Europe	2,073	5	1,811	5	14
Asia, Middle East & Africa	1,941	4	1,802	5	8
Total	**43,707**	**100**	**40,020**	**100**	**9**

Average Workforce	2018	%	2017*	%	Variation (%) vs 2017*
Spain	25,775	62	24,517	61	5
America	11,909	28	11,921	30	(0)
Europe	2,008	5	1,836	5	9
Asia, Middle East & Africa	1,879	4	1,730	4	9
Total	**41,572**	**100**	**40,004**	**100**	**4**

(*) Displayed data includes Tecnocom's average workforce for the entire 2017 period

At the end of the year, total workforce amounted to 43,707 professionals, an increase of +9% vs 2017. 2018 average headcount increased by +4% (including Tecnocom's average workforce for the entire 2017 period).

4 Analysis by vertical markets

Transport and defense

T&D	2018 (M€)	2017 (M€)	Variation % Reported	Variación % Local currency
Net Order Intake	1,323	1,248	6	8
Revenues	1,188	1,183	0	1
- Defence & Security	571	596	(4)	(4)
- Transport & Traffic	617	587	5	7
Book-to-bill	1.11	1.05	6	
Backlog / Revs LTM	2.29	2.00	15	

2018 T&D revenues went up by +1% in local currency (flat in reported terms). The growth posted by Transport & Traffic (+7% in local currency) offset the drop of Defence & Security (-4% both in local currency and reported figures), mainly dragged down by the lower contribution of the Eurofighter program.

2018 order intake increased by +8% in local currency (+6% in reported terms), pushed by Transport & Traffic, where it is worth noting the order intake related to the maintenance phase of the Mecca-Medina high-speed railway contract.

Backlog/Revenues LTM ratio improved to 2.29x in 2018 vs 2.00 in 2017. Book-to-bill ratio reached 1.11x in 2018 vs 1.05x in 2017

Defense & Security

- 2018 Defence & Security sales went down by -4% both in local currency and reported figures, chiefly impacted by the lower activity of the Eurofighter program.
- Region wise, most of the activity of the vertical in 2018 was concentrated in Spain and Europe.
- 2018 order intake remained almost flat (-1% in local currency), which is a very positive performance taking into consideration the sharp drop of the Eurofighter order intake. It is also worth highlighting the performance in Asia, Middle East & Africa (contract to supply a deployable forensic laboratory in Australia).

Transport & Traffic

- 2018 Transport & Traffic sales up +7% in local currency (+5% in reported terms). Transport registered revenue growth (+8% in local currency), chiefly backed by some relevant contracts in Asia, Middle East & Africa and America (Ecuador). Moreover, Air Traffic Management grew (+5% in local currency), thanks to the European and international programs, which continue to post good dynamics (Air Traffic Management contracts in Algeria and China).
- Region wise, most of the activity of the vertical in 2018 was distributed among Asia, Middle East & Africa, Spain and Europe.
- 2018 order intake went up by +17% in local currency (+13% in reported terms), boosted by the Transport & Traffic vertical, where it is worth highlighting Transport (Mecca-Medina high-speed railway contract).

Information technology

Minsait (IT)	2018 (M€)	2017 (M€)	Variation % Reported	Variation % Local currency
Net Order Intake	2,114	2,000	6	10
Revenues	1,916	1,828	5	
- Energy & Industry	580	481	21	1
- Financial Services	661	605	9	(4)
- Telecom & Media	240	236	2	7
- PPAA & Healthcare	435	506	(14)	
Book-to-bill	1.10	1.09	1	
Backlog / Revs LTM	0.70	0.64	10	

2018 Minsait (IT) sales went up by +9% in local currency (+5% in reported figures), chiefly helped by the contribution of acquisitions and the positive dynamics registered by Energy & Industry and Financial Services, which grew at double digit in local currency. Telecom & Media sales grew +8% while Public Administrations & Healthcare went down by -12%, mainly impacted by the difficult comparison vs 2017 (Elections business in Asia, Middle East & Africa).

Digital solutions sales amounted to €402m (which represents 21% of Minsait sales), implying an increase of +28% (+17% organic growth) vs 2017. It is worth highlighting the areas related to innovation, digital customer experience, process robotization, data science, including advanced analytics, and cybersecurity with strong growth rates.

Minsait (IT) order intake grew by +10% in local currency (+6% in reported figures) in 2018. All verticals posted growth at double digit rates except for Public Administrations & Healthcare, whose order intake fell due to the difficult comparison over the previous year (Elections business in Asia, Middle East & Africa). Excluding the Elections business, Minsait order intake would have grown +19% in reported terms.

Backlog/Revenues LTM improved to 0.70x vs 0.64x in 2017. Book-to-bill ratio reached 1.10x vs 1.09x in 2017.

Energy & Industry

- 2018 Energy & Industry revenues increased by +25% in local currency (+21% in reported figures), being the Minsait (IT) vertical that posted the best performance in the period, backed by the inorganic contribution of acquisitions1, the growth reached by key clients in both the Utilities (Enel) and the Oil & Gas (Repsol) sectors, as well as by the positive performance of the Hotels sector. Both Energy and Industry registered positive performances.
- By geography, Spain and America concentrated most of the activity of the vertical.
- 2018 order intake grew +34% in local currency (+29% in reported figures), boosted by both Energy (key clients in the Utilities and the Oil & Gas sectors) and Industry (Service and Hotels sectors).

Financial Services

- 2018 Financial Services sales increased by +13% in local currency (+9% in reported terms), mainly backed by the inorganic contribution of acquisitions, as well as by the better performance of the payment means business.
- Region wise, Spain and America concentrated most of the activity of the vertical in 2018.
- 2018 order intake rose by +28% in local currency (+25% in reported figures). Spain (key clients and mid-sized banking sector) and America (mid-sized banking sector and the payment means business) registered double digit growth.

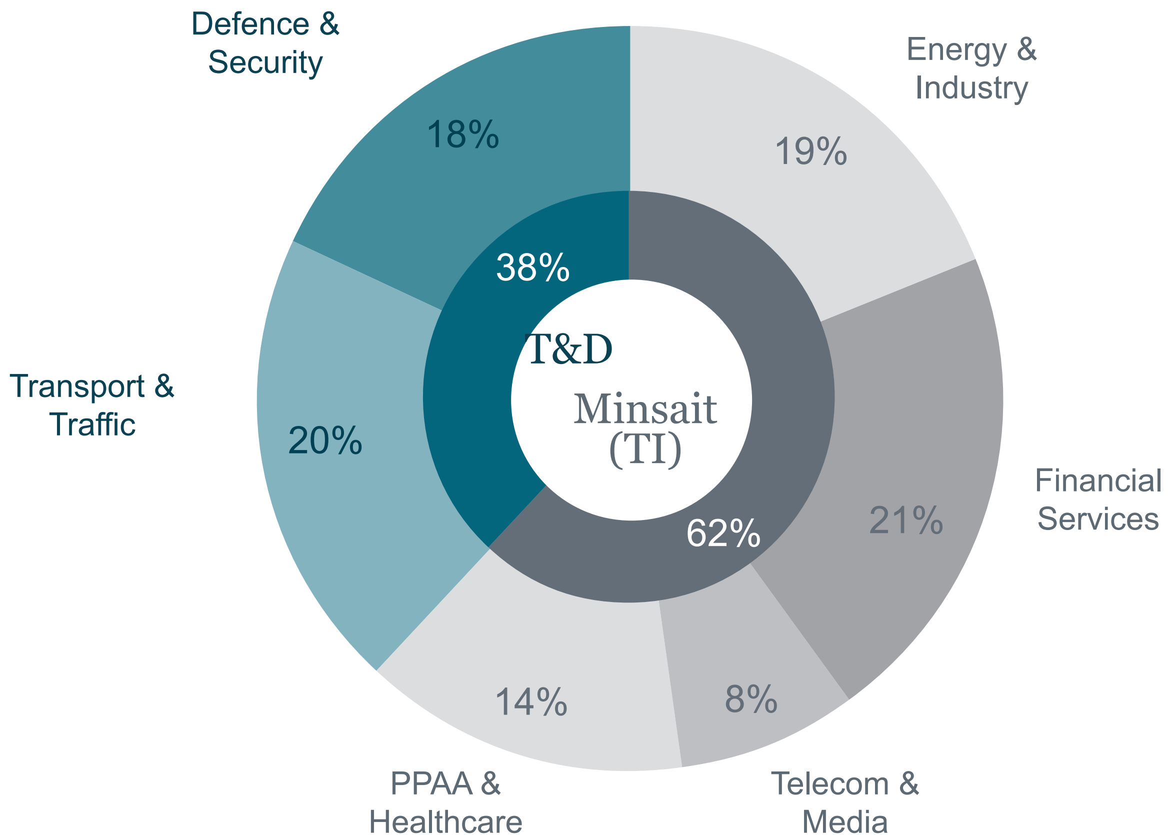
Telecom & Media

- 2018 Telecom & Media revenues grew by +8% in local currency (+2% in reported terms) mainly due to the contribution of acquisitions.
- By geographies, most of the activity of the vertical in 2018 was concentrated in Spain and America.
- 2018 order intake went up by +16% in local currency (+9% in reported figures), with both Spain and Brasil recording very positive performances (largely Telefónica).

Public Administrations & Healthcare

- 2018 Public Administrations & Healthcare sales slowed down by -12% in local currency (-14% in reported terms), highly affected by the difficult comparison vs the previous year (Elections business in Asia, Middle East & Africa). Excluding the Elections business, sales would have slightly increased (+1%).
- Region wise, Spain and America concentrated the main activity of the vertical.
- 2018 order intake went down by -31% in local currency (-33% in reported figures), explained by the difficult comparison vs the previous year (Elections business). Excluding the Elections business, order intake would have grown +5% in reported terms. It is worth noting the double digit growth of Spain and Europe (Italy). Nevertheless, order intake in America slowed down as a consequence of the repositioning towards private clients vs public clients.

Below are the weights of each of the verticals on total 2018 sales:



5 Analysis by geographical areas

Revenues by Region	2018 (M€)	2018 %	2017 (M€)	2017 %	Variation % Reported	Variation % Local currency
España	1,556	50	1,387	46	12	12
América	609	20	656	22	(7)	4
Europa	504	16	492	16	2	3
Asia, Oriente Medio y África	434	14	477	16	(9)	(7)
Total	3,104	100	3,011	100	3	6

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

By geographies, it is worth highlighting the growth posted in Spain (+12%; 50% of total sales) and America (+4%; 20% of total sales), pushed by the inorganic contribution of acquisitions and the organic growth registered in both regions. Sales in Europe also went up (+3%; 16% of total sales) while in Asia, Middle East & Africa decreased (-7% in local currency; 14% of total sales) due to the difficult comparison vs 2017 (Election business). Excluding the Election business, sales would have grown close to mid-single digit.

2018 order intake grew by +9% in local currency (+6% in reported terms). It is worth highlighting the growth registered in Spain (+17%) and America (+15% in local currency), mainly thanks to the contribution of acquisitions. Asia, Middle East & Africa order intake went up by (+1% in local currency) due to the strong performance in Transport, which almost offset the decline registered in the Elections business. However, order intake in Europe decreased (-10% in local currency) as a consequence of the fall registered in the Eurofighter program and the difficult comparison vs 2017 in Air Traffic Management (Air Traffic Management).

Spain

- 2018 revenues went up by +12%, mainly pushed by the contribution of acquisitions as well as by the organic growth registered in the region. Both divisions, T&D and Minsait (IT), posted growth.
- 2018 Minsait (IT) revenues recorded double digit growth in all the verticals.
- 2018 T&D revenues registered growth helped by the positive performance of Defence & Security, backed by the underway multiannual projects signed with Spain's MoD (mainly electronic systems forming part of the integrated mast for the F110 frigate and electronic systems of the 8x8 armored vehicle).
- 2018 order intake rose +18%, mainly driven by Minsait (IT).

America

- 2018 revenues increased by +4% in local currency (-7% reported figures), chiefly driven by the contribution of acquisitions as well as by the organic growth registered in the region, with both divisions, Minsait (IT) and T&D, showing growth.

- By countries, Brazil, the most relevant country in America, posted revenue growth of +7% in local currency, and EBIT margin reached 6.3% vs -3.9% in 2017. Order intake went up by +11% helped by Energy & Industry and Financial Services. It is also worth mentioning the growth posted (in local currency) in Mexico (mid-single digit), Colombia, Chile and Peru (double digit growth rates).

- The activity in America is mostly concentrated in Minsait (IT). All Minsait verticals posted growth (Energy & Industry stood out posting double digit growth) except for Public Administrations & Healthcare, as a consequence of the repositioning towards private vs public clients.

- 2018 T&D revenues registered mid to high single digit growth in local currency. The growth achieved in Transport & Traffic (double digit) offset the decline in Defence & Security.

- 2018 order Intake grew by +15% in local currency (+2% in reported terms), with both T&D and Minsait (IT) showing growth.

Europe

- 2018 revenues up +3% in local currency. The increase of Minsait (IT) offset the decline in the T&D business.

- 2018 T&D sales declined. Transport & Traffic growth did not counteract the decrease in Defence & Security (lower contribution of the Eurofighter program).

- 2018 Minsait (IT) sales posted double digit growth. It is worth mentioning Energy & Industry due to the positive performance of the Italian subsidiary.

- 2018 order Intake went down by -10% in local and in reported terms, mainly affected by the lower activity registered in the T&D division (due to the fall registered in the Eurofighter program and the difficult comparison vs 2017 in Air Traffic Management).

Asia, Middle East & Africa

- 2018 revenues in Asia, Middle East & Africa decreased by -7% in local currency (-9% in reported terms) mainly affected by the difficult comparison vs last year (Elections business). Excluding the Elections business, sales would have increased close to mid-single digit.

- 2018 T&D sales (c.75% of total revenues in the region) posted close to double digit growth, mainly pushed by Transport & Traffic (largest vertical in the region), showing both Transport (Mova Traffic contracts) and Air Traffic Management (Algeria and China) very positive performances.

- 2018 Minsait (IT) revenues (c.25% of total sales in the region) registered double digit fall, affected by the difficult comparison versus last year (Elections business).

- 2018 order Intake in Asia, Middle East & Africa went up by +1% in local currency (-3% in reported terms). The strong order intake in Transport & Traffic (maintenance phase of the Mecca-Medina high-speed railway contract) and Defence & Security (contract to supply a deployable forensic laboratory in Australia) offset the strong decline in the Elections business due to the difficult comparison vs last year.

6 Research and Development Activity

The Group has continued to dedicate significant efforts both in terms of human and financial resources as well as developing services and solutions positioning the Group as a technological leader in various sectors and markets in which it operates. The amount devoted to research, development and technological innovation activities totaled €210,045 thousand, equivalent to 7% of the Group's total sales.

7 Average Payment Period to Suppliers

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

This resolution is mandatory for all Spanish mercantile companies that prepare Consolidated Financial Statements, but only with respect to companies located in Spain, which are fully or partially consolidated.

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

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

$$\text{Average Period - Payments to Suppliers} = \frac{\text{Ratio of operations paid} * \text{amount of payments made} + \text{ratio of operations pending} * \text{total amount of outstanding payments}}{\text{Total amount of payments made} + \text{Total amount of pending payments}}$$

Information on the Spanish companies for 2018 and 2017 are as follows:

	2018	2017
	Days	**Days**
Average Period - Payments to Suppliers	58	64
Ratio of Paid Transactions	59	66
Ratio of transactions pending payment	52	52
	Amount (M€)	**Amount (M€)**
Total payments made	1.045.472	1.013.342
Total payments pending	255.833	187.242

8 Main risks associated with the activity

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

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

(A) Financial risks

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

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

Market Risk

Exchange rates risk

The Group's international presence, with projects in over 140 countries in diverse geographical locations including Spain, America, Europe, Asia, the Middle East and Africa, means that the Group is exposed to exchange rate risk of the currencies from the countries in which it operates. As of December 31, 2018, approximately 50% of the Group's total sales came from international markets (47% in 2017).

The main transactions conducted by the Group in non-Euro currencies during 2018 and 2017 are detailed below:

	Thousand of EUR	
	2018	2017
Sales	58	64
Procurement	59	66

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

Risk of translation of accounting items

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

As of December 31, 2018, the Group does not use financial instruments to hedge the change in the exchange rates against the euro of any item in the income statement or in the balance sheets of these foreign subsidiaries, leaving the Group exposed to the effect of translation of these accounting items at the time of consolidation.

The following table reflects the sensitivity as at December 31, 2018 and December 31, 2017 regarding the Group's equity, expressed in millions of euros, with variations of +/-5% in the exchange rate against the euro of the main functional currencies of the Group's foreign subsidiaries.

Change in Equity 2018	
+5%	Thousands of EUR
Saudi Riyal	1,003
Mexican Peso	1,166
Brazilian Real	2,421

Change in Equity 2017	
+5%	Thousands of EUR
Saudi Riyal	945
Mexican Peso	1,162
Brazilian Real	1,831

On the other hand, the following table shows the sensitivity at December 31, 2018 and Sunday, December 31, 2017 of the Group's consolidated results, expressed in millions of EUR, to variations of +/- 5% in the exchange rate against the euro of the main functional currencies of the Group's foreign subsidiaries.

Change in Profit/Loss 2018	
+5%	Thousands of EUR
Saudi Riyal	(66)
Mexican Peso	240
Brazilian Real	(153)

Change in Profit/Loss 2017	
+5%	Thousands of EUR
Saudi Riyal	(41)
Mexican Peso	17
Brazilian Real	(618)

At December 31, 2018, the Group's consolidated equity and consolidated results are more sensitive to changes in the exchange rates against the Saudi Riyal, the Mexican Peso and the Brazilian Real. However, in the future, the result or the net worth of the Group may be more sensitive to variations in the exchange rate against the euro of functional currencies of the Group's foreign subsidiaries other than those included in the previous tables, based on of the relative weight of the business of the Group's foreign subsidiaries.

Risk of income and expenses in currencies other than functional currencies

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

To mitigate this risk, the Group maintains a policy of subscription of exchange rate hedge contracts with financial institutions that replicate the expected patterns of collection and payments in each project from December 31, 2018, although in some cases these hedges may be ineffective or unavailable.

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

Risk of delay or scope changes in projects

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

Risk of lack of competitiveness due to specific currency fluctuations

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

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

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

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

Exposure to Country Credit Risk

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

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

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

Interest rate risk

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

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

On December 31, 2018, 51.5% of the Group's gross debt entailed a cost at a fixed-interest rate, including €600 million (€422 million in 2017) in convertible bonds.

Additionally, in accordance with generally accepted accounting principles, the Group performs comparative exercises of the value of the assets included in its balance sheet, which to a large extent assume interest rate references in order to discount the associated flows in order to calculate such values. An increase in interest rates may lead to various impairments in the Group's portfolio of assets and liabilities.

The following table shows the sensitivity of the Group's consolidated profit/loss, expressed in millions of EUR, to fluctuations in the interest rate at December 31, 2018 and 2017:

	2018 Fiscal Year		**2017 Fiscal Year**	
	Interest Rate Variation		Interest Rate Variation	
	+0.5%	-0.5%	+0.5%	-0.5%
Effect on the result before tax	(1.32)	0.56	(0.89)	0.89

Credit Risk

Risk of Client Counterpart

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

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

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

On December 31, 2018, the amount of the commercial debtors and other accounts receivable item on the consolidated balance sheet totaled €981 million (€1,248 million in 2017), of which €52 million (€95 million in 2017) were over 12 months old. The above-mentioned amount for commercial debtors and other accounts receivable includes the provisions that the Group has made in the amount of €81 million (€128 million in 2017) against this client portfolio and, depending on how the ongoing projects evolve, additional impairments may arise.

Liquidity risk

Risk of access to source of financing

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

As of December 31, 2018, the Group's gross financial debt position is €1,401 million (€1,287 million in 2017), including financing from Spanish and foreign financial institutions, capital markets (convertible bonds), institutional investors (private debt placements) and financing lines of non-banking entities, such as the CDTI (Center for the Development of Industrial Technology).

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

Risk of access to funding sources for R+D activity

The Group uses financing from companies that fund R+D projects, such as CDTI, among others, and which are important for the execution of certain R+D projects. These loans have particular characteristics in terms of duration, cost and flexibility in the repayment, sometimes linked to the commercial success of the product. The amount of these loans, as of December 31, 2018, represents 13% (15% in 2017) of the Group's gross financial debt.

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

Liquidity risk

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

As of December 31, 2018, and 2017, the Group's gross long-term financial debt amounts to €1,359 million and €1,016 million, respectively (97% and 79% of the Group's gross financial debt, respectively), while the gross short-term financial debt stood, at that same date, at €42 million and €271 million, respectively (3% and 21% of the Group's gross financial debt, respectively). In addition, the balance of the Group's treasury and equivalent liquid assets on December 31, 2018 amounted to €918 million (€699 million in 2017).

Thus, on December 31, 2018 the Group had a net financial debt position totaling €483 million (€588 million in 2017), as a result of which the Group is dependent on the short-term cash generation of its own operations and/or obtaining additional financial resources from financial entities to deal with:

a. its business and operational payments, and
b. the reimbursement of the amounts lent by the financial entities and the accrued interest upon their corresponding maturities.

The Group carries out treasury forecasts to ensure that it has access to the resources necessary to meet its operational and financial requirements. Likewise, the Group has non-disposed credit lines in the amount of €187 million in 2018 (€233 million in 2017).

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

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

The nature of the budgetary and payment processes of some of the Group's clients (mainly clients associated with the public sector) determines that there may be periods of concentration of receivables associated with projects around certain dates, mainly concentrated in the last weeks of calendar years. €168 million of positive free cash flow was generated in 2018 (€186 million in 2017). Also, in some cases clients linked to the public sector follow payment management processes that are conditioned to the review of other authorities or government entities, which may involve delays or adjustments to the payment schedule itself. This dynamic creates seasonality in the cash flows generated by the Group that could give rise to treasury tensions in those periods during which the charges associated with the projects are structurally lower.

Risks derived from guarantees disposal

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

On December 31, 2018, the Group submitted guarantees to third parties, issued by various banking and insurance companies, chiefly to endorse the fulfillment of contracts for the total amount of €1,012 million (€955 million in 2017).

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

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

Risk of non-compliance of financial ratios

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

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

On the other hand, as of December 31, 2018, the Group's financing is not subject to compliance with financial ratios, except for one financing line for R+D projects contracted in December 2016 (representative of less than 6 % of the Group's gross financial debt) that includes the obligation that net equity represents a minimum against the sum of the net equity plus net financial debt.

Risk of management of payments to suppliers through confirming lines

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

Accounting and Reporting Risk

Risks arising from changes in accounting standards

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

In particular, as of the date of this Registration Document, the Group's Management is evaluating the impact that applying the standards and interpretations issued by the International Financial Reporting Standards Board (IASB) would have on the Group's Consolidated Financial Statements, if they were finally validated by the European Union. The group has preliminarily evaluated the impact that the application of IFRS 16 would have, which, under the heading "Leases" See, for greater detail, Note 2 of the accompanying Consolidated Financial Statements for 2018.

(B) Operational risks / Risks associated with processes

Risks related to the execution of projects

Risks derived from the definition and scope of prices in the offer

Inadequate analysis of the scope of the project could cause incorrect price estimates, concretion and formalization in the scope of the offering, giving rise to operations with lower-than-expected profitability. The existence of inaccuracies in the requirements and deliverables could cause continuous changes leading to the non-acceptance of deliveries and non-payments or to the cancellation of the contract due to non- compliance.

There exists a risk in the event that the Group is unable to deliver the offered solution or the scopes offered require a higher assumption of costs or technological restrictions that prevent the agreed scope from being delivered in a timely manner, leading to a significant loss of profitability and cash in said projects, which could have a significant impact on the Group's financial position.

Risks derived from project management

The absence of good planning and organization, identification and risk assessment in accordance with the taxonomy defined for risk management in projects, manager experience and a lack of a proper risk and monitoring plan could entail failure to detect deviations in time. A lack of resource planning, as well as its availability at the right time, could jeopardize the project's objectives.

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

The group performs continuous analysis of the expected future profitability of the projects under execution with the best information available at any given time, which can lead to significant provisions at the moment of finalizing this analysis if, as a result of this process, a greater assumption of costs than those initially planned is expected.

In addition, the Group conducts regular reviews of its project portfolio, identifying those which show signs of potential losses and provisioning them as they are identified. As at December 31, 2018, the Group recorded a net movement of provisions for this item for the negative amount of €25 million (negative amount of €15 million in 2017).

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

Customer-related risks

A lack of an overview of the customer or the latter having a complex or unstable organization could entail making inappropriate decisions during the life of the project.

Risks derived from the technical complexity of the projects

The complexity of the systems and specific technical tasks to be carried out, as well as the lack of prior experience, could affect compliance with the product requirements and deliverables.

Risk of non-satisfaction of the customer

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

Quality and safety risk of the supplied products

Failure to comply with legal and regulatory provisions regarding the safety of products and services could affect the level of quality offered to the customer. The absence of adequate instruments to ensure and control the quality of products and services throughout all the phases of their production could increase their cost, owing to a lack of early detection and management of the deviations, making reworking necessary or leading to contractual breaches. A lack of systematic quality management would restrict the capacity of the organization to prevent the repetition of known errors and its continuous improvement.

Risk of difficulty in complying with contractual commitments

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

Order Intake and Backlog risk

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

The accumulated order intake on its part is affected by variables external to the Group such as variations in the exchange rate (for contracts denominated in foreign currency), adjustments to the scope of projects, delays in the start-up of services or projects, and even cancellations of contracts.

The order intake of new projects each year is conditioned by the Group's ability to adapt to market developments in terms of competition, supply and product development.

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

Risk of international expansion

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

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

Risk derived from integration into Temporary Business Associations or consortiums and associations

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

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

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

Disqualification risk to contract with Public Authorities

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

Risks related to the purchasing process

Supplier risk

Not having mechanisms for the approval, evaluation, operational monitoring and diversification of suppliers may entail an excessive dependence on suppliers, operational deviations, penalties for delays, credit risk and risks associated with technological obsolescence.

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

Likewise, the Group works in all sectors in which it operates with a series of niche suppliers specialized in specific products and services that the Group requires for the development and implementation of its projects. Therefore, in the event that niche suppliers could not supply their products or services within the agreed term, it may not be

easy to replace them in a short period of time, which could lead to a deviation in the execution period of the projects negatively affecting the Group's results. In addition, eventual changes in the pricing policy of suppliers could significantly affect the profitability of the associated projects.

Risks arising from the supply strategy

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

Quality and service risk related to the supplied products

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

Risk of warehouse management of proprietary and third-party materials

In relation to warehouse management, improper management of both proprietary and third-party materials could lead to inefficient cost optimization (financial matters, obsolescence, etc)

Risks related to the Information Systems

Risk due to vulnerability to computer attacks

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

Risk related to data protection

Failure to comply with the current regulations on data protection within the company and within the scope of its operations could result in economic sanctions and a loss of reputation.

Risks of human capital and social-labor conflicts

Risk related to Key Personnel

A lack of identification, active management, succession plans and/or retention policies regarding collectives of interest could entail a loss of talent and specific technology capability. The above could have a negative impact on the generation of valuable opportunities and specific offers or significantly increase the costs of recruiting replacement resources.

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

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

Labor and Social Security Risk

Inadequate administrative management of personnel in Labor and Social Security matters could cause legislative non-compliance (regulations and jurisprudence) and entail significant economic and/or legal contingencies between the company and its workers, trade union associations and the State.

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

Risk related to strategy and resource planning

Likewise, inadequate planning of resources, as well as the lack of an outsourcing strategy, could have an impact on the resources and derived costs.

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

Risk derived from the relations with trade unions, employers' association and employees

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

Social climate risk

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

Risk related to recruitment and training difficulties

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

Compensation and benefit risk

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

Health and Safety risk

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

Risk of an inadequate suborder intake management model

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

Risks related to External Events

Risk related to security, kidnapping, blackmail, extortion and catastrophe

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

Risk due to fire, explosions and others

Physical damage to the Group's buildings caused by a fire, explosion, terrorism or any other reason could endanger the continuity of the business.

Insufficient insurance coverage risk

Even when the Group seeks to ensure the risks to which it is reasonably exposed and considers that its insurance coverage meets the usual market standards, it cannot guarantee that its policies cover all of its liabilities or damages in the event of an incident. In this sense, the Group may be obliged to bear significant costs in the event that (i) its insurance policies do not cover a certain loss, (ii) the amounts insured by said policies were insufficient, or (iii) the insurance company is unable to pay the amounts insured, all without prejudice to the increase in insurance premiums.

Risks related to business continuity

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

Risks related to Communication

Public relations risk

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

Risk related to the relationships with investors and the Shareholders' Meeting

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

Risk of brand positioning

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

Reputational Risk

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

On the other hand, the Group operates and provides services in very sensitive areas, such as electoral process management, rail and air traffic management and Defense, the nature of which continually exposes the Company to factors beyond its control that can negatively affect its brand. Likewise, although the Group has adopted internal control measures designed to mitigate these risks, it is still exposed to other factors that it has not been able to foresee and control internally, factors outside its business structure and the behavior of certain members of the Company could affect its image. In the event of this happening, any of these situations could negatively affect the Group's brand and, therefore, its ability to maintain its competitive position in the markets in which it operates.

(C) Compliance risks

Risk of legislative, regulatory and fiscal compliance

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

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

The Group records provisions for 100% of the amount of the proceedings in which it is a defendant and whose risk of occurrence has been classified as "probable" (i.e., the risk of the Group receiving a sentence of condemnation or dismissal is greater than 50%). As at December 31, 2018, the Group is a defendant in litigation for a total amount of €46 million (€44 million in 2017). Also, at that date, the amount of the provisions amounted to €46 million (€44 million in 2017). For more details regarding the procedures and litigation in progress affecting the Groups, see note 23.

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

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

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

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

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

Risk of non-compliance with recommendations regarding Corporate Governance

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

Risk related to contracts - empowerment

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

Risk of lack of certifications and accreditations

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

Risks related to the protection of know-how

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

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

1. adequate contractual protection in the relationships maintained with customers and suppliers, and
2. the active management of their rights through the registration and monitoring of intellectual property registers and deposits, patents and trademarks.

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

Integrity risk

Possibility of acting against INDRA's integrity and ethical values. Disparity between the interests of the company, the employees, the suppliers, the clients and the competitors. The company professionals' lack of knowledge or lack of application of the ethical code and legal compliance could cause a breach thereof, with the consequent impact on the company's reputation and image vis-a-vis its stakeholders, as well as economic and CSR-related impacts, among others.

Environmental risk

Inadequate management of the environmental aspects associated with the productive activities could cause direct damage to the environment (ecosystems, water, air, soil) or indirect damage to people and property; it could impede the protection of the environment and make it difficult for the impact on the environment to be sustainable; it could entail non-compliance with the environmental regulations, with the consequent risk of sanctions and legal liabilities.

(D) External/ Strategic risks

Risks related to the Market Dynamic

Risk of exposure to the Spanish market

The national economy could be affected by a decrease in investment in the Public Administration, as well as in the Private Client, due to the decline of the economic and socio-political situation in the country, which could cause a loss of income.

In spite of the efforts made to internationalize the Group in recent years, the Group depends heavily on the Spanish market. During fiscal year 2018, 50% of total sales came from this region (53% in 2017).

Relevance of the world economic situation to the business

The economic, socio-political and labor situation and the global macroeconomic trends affect the Group's business, given its international operations.

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

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

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

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

Technological risks

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

Technological Competence Risks

Some of the sectors in which the Group operates are in a constant process of development and innovation, which implies that the technologies used or developed by the Group may become obsolete, and it is therefore necessary to make a high effort to maintain the Group's technological development. The lack of flexibility, efficient investment and knowledge in assuming the technological changes derived from disruptive technologies could put the Company in a disadvantaged position with respect to its competitors. In this context it is necessary not only to adapt to the constant technological changes, but also to be able to anticipate them sufficiently in advance to adapt the technological offer of the Group in order to provide a quality, updated, reliable and safe service to customers.

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

Risks associated with fluctuations in prices of materials, services and labor

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

Risk of loss of competitive position

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

Commercial Positioning

A lack of training, a lack of knowledge of the offering and/or adequate commercial profiles in strategic positions, limited access to key high-level functions in potential clients and increased competition could entail the non-identification or loss of valuable opportunities for the Group.

Risk of customer dependence

The excessive dependence on certain customers, as well as an inadequate strategy to attract new customers, could lead to a loss of profitability of the customer portfolio and slow down the Group's growth and sales capacity. Likewise, any supplier rationalization processes that could be carried out by large corporations may cause the Group to lose all or part of the business of said customers.

The Group has a broad and diversified portfolio of large clients with which it seeks to build long-term sustainable relationships. Its main clients include large business groups, governments and public and public- private entities in the different jurisdictions in which the Group operates. As at December 31, 2018 and 2017 no Group customer accounted for more than 10% of the Group's consolidated income.

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

Risks related to Cultural Change and Focus on Profitability

Risk of not achieving levels of productivity and cost efficiency

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

Risk in the difficulty to manage the change

The high levels of competition, economic internationalization and the emergence of new technologies have put pressure on the changes in organizations and renewal processes, which are based on permanent innovation and the adaptation of their corporate culture, with particular emphasis on the attraction, development and retention of talent.

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

Risk of inadequate organization of the Group

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

Planning and budget risk

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

Risk of adaptation to climate change

The lack of an adaptation and communication strategy in relation to climate change could have an impact on the business strategy due to the direct economic and reputational impact and the associated risks and opportunities.

Risk derived from the execution of the Strategic Plan 2018-2020

The 2018-2020 Strategic Plan seeks to complete the Group's transformation and facilitate its profitable growth by means of four pillars:

- Moving towards greater specialization of the operating model by means of the subsidiarization of Information Technology activities, in order to improve results orientation, agility and strategic flexibility.
- Continuing to develop the product portfolio to provide it with greater added value.
- Accelerate the commercial transformation to become a sales-oriented company.
- Continuous improvement of productivity in order to increase the company's competitiveness and profitability.

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

In addition, the objectives contemplated in the aforementioned Strategic Plan 2018-2020 are based on estimates and forecasts about the Group at the date of its announcement. These estimates are conditioned by risks, uncertainties and other factors that could cause the final results to differ from those expected.

Risks related to the Product and Project Portfolio

Risk in the lack of adequate commercial channels

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

Risk in the management of product offer

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

Risks related to structural changes, acquisitions and partnerships

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

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

As of December 31, 2018, the Group had a total of €373 million net immaterial assets (€352 million in 2017).

Likewise, the Group may be required to provision goodwill arising from past corporate transactions in the event that future business prospects associated with these businesses are not able to justify the book value of such goodwill. As of December 31, 2018, the Group had a total of €812 million in goodwill (€803 million in 2017).

Risk of inappropriate segregation of businesses

Inadequate management of business segregation could affect the operation.

Risk of growth per acquisition/derivative in integrating new businesses

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

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

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

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

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

- Appearance of hidden or unknown liabilities at the time of acquisition.
- Risks derived from integration.
- The Resulting Group may not be able to retain key executives and employees or efficiently manage the workforce.

Risk of finding alliances, Partner and appropriate technology partners

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

9 Structure of Share capital

As at December 31, 2018, the subscribed and paid-up share capital of the Parent Company is €35,330,880.40, divided into 176,654,402 ordinary shares with a face value of €0.20 each. 100% of the share capital consists of ordinary shares belonging to the same class and, therefore, confer the same rights and obligations, there being no restriction on their transferability or voting rights.

The main shareholders of the Parent Company as at December 31, 2018 with ownership interest of more than 3% are: SEPI (18.7%), Alba Financial Corporation (10.5%), Fidelity Management & Research LLC (9.4%), T. Rowe Price Associates (4.9%), Norges Bank (4.1%) and Schroders (3.2%).

10 Other corporate information

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

11 Shareholder remuneration

During fiscal year 2018, no dividend was paid out by the Parent Company.

The Board of Directors of the Parent will propose to its Annual Shareholders' Meeting that the profits totalling €23,718,070.84 should be applied to offsetting losses from previous years.

The proposed application of the profit or loss for the year 2018 in the Group companies has been formulated by their respective Administrators and is pending approval by the corresponding shareholders at the Annual General Meeting.

12 Derivatives

The Group carries out an active management policy to hedge the risks derived from interest rate fluctuations by ordering hedges and derivative instruments from financial entities.

Likewise, the Group proposes using interest type swaps to manage its exposure to fluctuations in interest rates, mainly in its long-term bank loans at variable interest rates.

It does not currently contract any interest rate swaps.

13 Annual Corporate Governance Report

The Annual Corporate Governance Report is incorporated by means of a unified document and as an integral part of this report, in accordance with the provisions of Article 538 of the Capital Companies Act. The Annual Corporate Governance Report has been drawn up in accordance with the model approved by Circular 7/2015 of the National Securities Market Commission.

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

14 Treasury Shares

In use of the powers granted by the Annual General Meeting, the Company directly holds a total of 428,489 shares amounting to €3,663 thousand as at December 31, 2018.

During fiscal year 2018, the Company acquired 9,926,994 treasury shares on the stock market (6.07% of the annual volume) and sold 10,311,881 treasury shares (5.86% of the annual volume).

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

15 Non-financial information

The non-financial information, in accordance with the provisions of European Parliament and Council Directive 2014/95/EU and of Royal Decree-Law 11/2018, which modifies the Commercial Code, the revised text of the Law of Capital Companies approved by Royal Legislative Decree 1/2010, of July 2, and Law 22/2015, of July 20, of Audit of Accounts in matters of non-financial information and diversity, is contained in the Corporate Social Responsibility Report that forms part of the Management Report as an annex and, therefore, is subject to the same approval, deposit and publication criteria as the Management Report, having been formulated by the Board of Directors together with the Management in its session of Friday, March 22, 2019. This Corporate Social Responsibility Report includes the information necessary to understand the development, the profits and losses and the situation of the group, and the impact of its activity with regard to, at least, environmental and social issues, as well as regarding personnel, the respect of human rights and the fight against corruption and bribery, among others. The Corporate Social Responsibility Report can be viewed on the company's website (www.indracompany.com).

16 Subsequent events

In February 2019 the CNMC initiated disciplinary proceedings for collusive practices against 25 companies, among them the Parent Company and 8 physical persons linked to these companies (none related to the Parent Company). These proceedings are outlined in note 23.

In February 2019, the Court considered a Special Appeal filed by Indra Brasil Soluçoes e Serviços Tecnológicos Ltda. against the latest decision of the CARF (administrative court) which annulled the effects of the ruling in favor of Indra Brasil in the second instance for alleged defects in the procedure. This judgment is final and it means the end of the litigation (see note 23).

In February, 6th 2019 an agreement was signed for the initiation of activities to inspect Tecnocom Telecomunicaciones y Energía, S.A. and Tecnocom España Solutions, S.L., a notification addressed to the Group Company Indra Soluciones Tecnologías de la Información, S.L., as the absorbent company of both entities (see note 36).

17 Alternative Performance Measures

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

Gross operating profit/loss (EBITDA)

- Definition/Conciliation: It is calculated by adding the Depreciations and Amortizations to the "Operating Result (EBIT)" as indicated in the consolidated income statement.
- Explanation: Metric that the Group uses to define its operating profitability, and widely used by investors when evaluating businesses.
- Likewise, the Group uses it as an indicator of the performance of the EBITDA margin, which is the result of the ratio between EBITDA and the amount of sales for the same period. This indicator is explained as the operating profit of the Group plus Depreciations and Amortizations for each euro of sales.
- Coherence in the criteria applied: There is no change in the criteria applied compared to last year.

Consolidated income statement (M€)	2018	2017
Operating Result	199	196
Amortization	94	71
Gross Operating ProfitlLoss (EBITDA)	***293***	***266***

Operating Result (EBIT)

- Definition/Conciliation: It is defined in the consolidated income statement.
- Explanation: Metric that the Group uses to define its operating profitability and widely used by investors when evaluating businesses.
- Likewise, the Group uses it as an indicator of the performance of the EBIT margin, which is the result of the ratio between EBIT and the amount of sales for the same period. This indicator is explained as the operating profit of the Group for each euro of sales.
- Coherence in the criteria applied: There is no change in the criteria applied compared to last year.

(M€)	T&D	TI	Eliminations	2018
Total Sales	1,188	1,916	-	3,104
Contribution Margin	230	264	-	494
Contribution Margin (%)	*19.4%*	*13.8%*	-	*15.9%*
EBIT	157	43	-	199
EBIT Margin (%)	*13.2%*	*2.2%*	-	*6.4%*

(M€)	T&D	TI	Eliminations	2017
Total Sales	1,183	1,828	-	3,011
Contribution Margin	224	258	-	482
Contribution Margin (%)	*18.9%*	*14.1%*	-	*16.0%*
EBIT	137	58	-	196
EBIT Margin (%)	*11.6%*	*3.2%*	-	*6.5%*

Net Financial Debt

- Definition/Conciliation: Represents Non-current Loans and Borrowings and Current Loans and Borrowings less Cash and Cash equivalents. Net Financial Debt is obtained by subtracting the balances corresponding to the headings of the Consolidated Balance Sheet, “Long and Current borrowings with Credit Institutions” and “Financial Liabilities for Issuance of Non-current and Other Marketable Securities”, the amount of the heading “Cash and cash equivalents”.
- Explanation: Financial proxy that the Group uses to measure its leverage.
- Likewise, the Group uses the ratio Net Financial Debt over EBITDA as an indicator of its leverage and repayment capacity of its financial debt. For that reason, the figure used to calculate the ratio for intermediate periods is made by taking into consideration the equivalent last twelve months EBITDA immediately preceding the calculation date of the ratio.
- Coherence in the criteria applied: There is no change in the criteria applied compared to last year.

Consolidated balance sheet (M€)	2018	2017
Cash and other equivalent liquid assets	**918**	**699**
Non current liabilities	**(1,359)**	**(1,016)**
Amounts owed to credit institutions	(765)	(748)
Financial liabilities from the issuance of negotiable obligations and securities	(594)	(269)
Current liabilities	**(42)**	**(271)**
Amounts owed to credit institutions	(34)	(119)
Financial liabilities from the issuance of negotiable obligations and securities	(8)	(152)
Net Financial Debt	***(483)***	***(588)***

Free Cash Flow

- Definition/Conciliation: These are the funds generated by the Company excluding dividend payments, net financial investments/divestments and others, and the investment in treasury stock. It is calculated starting from "Profit Before Tax" as indicated in the consolidated statement of cash flows; adding depreciation and amortization, deducting provisions, capital grants and others, adding result of companies accounted for using the equity method, adding financial losses, adding dividend received, adding cash flow from operating activities, deducting capex, deducting interest paid and received and deducting income tax paid.
- Explanation: It is the treasury made by the operations of the Group that is available to providers (shareholders and financial creditors) once the investment needs of the Group are already satisfied. It is an indicator used by investors when evaluating businesses.
- Coherence in the criteria applied: There is no change in the criteria applied compared to last year.

Contribution Margin

- Definition/Conciliation: It is the difference between revenues and direct and indirect costs of the segments or businesses of the Group. Direct costs are those directly attributable to the sales recognized in a specific period of time and include the cost of the headcount or subcontractors used in the projects as well as any incurred costs related to the development and completion of the project; such as material costs, travel expenses of the project, among others. Indirect costs are those which, although are linked to a segment or businesses of the Group, are not directly attributable to billable projects or to revenues accounted for a specific period of time; such as, commercial costs, cost of making offers, the cost of management of a specific segment, among others. Contribution margin does not include overheads as these costs are not directly attributable to a particular segment or business.

- Explanation: contribution margin measures the operating profitability of a segment or business of the Group excluding overheads, as these costs are not directly attributable to a particular segment or business.
- Likewise, in order to ease the comparison between segments with different relative weight over the total revenues of the Group, it is used the contribution margin ratio over revenues of a segment or business. This indicator is explained as the contribution margin for each euro of sales of a specific segment.
- Coherence in the criteria applied: There is no change in the criteria applied compared to last year.

Order intake

- Definition/Conciliation: It is the amount of contracts won over a period of time. Order intake cannot be confused with revenues or the net amount of sales because the amount of a contract won in a specific period of time (and that computes as Order Intake in that period of time) can be executed over several years.
- Explanation: Order intake is an indicator of the future performance of the Group because it is the amount of the contracts won over a period of time.
- Coherence in the criteria applied: There is no change in the criteria applied compared to last year.

Backlog

- Definition/Conciliation: It is the amount of accumulated order intake less revenues executed, plus/minus forex adjustments and the renegotiation of the contracts, among others. It is the pending revenues figure until the completion of the project to complete the order intake figure.
- Explanation: Backlog is an indicator of the future performance of the Group because it is the amount of the contracts won still to be executed.
- Coherence in the criteria applied: There is no change in the criteria applied compared to last year.