

REPORT DRAFTED BY THE BOARD OF DIRECTORS OF INDRA SISTEMAS, S.A. REGARDING THE PROPOSAL FOR APPOINTMENT AND RE-ELECTION OF MEMBERS OF THE BOARD OF DIRECTORS

1. Purpose of the Report

The Board of Directors of Indra Sistemas, S.A. (“**Indra**” or the “**Company**”) has drafted this report in compliance with sections 4 and 6 of Article 529.10 of the *Ley de Sociedades de Capital* (“Spanish Corporations Act” or “LSC”), which provides that proposals for appointment and re-election of directors other than independent directors should be brought by the Board, and in the case of independent directors, the proposal for their appointment or re-election is to be preceded by a supporting report from the Board.

The proposals subject to this report are the following:

- Appoint Ms. Silvia Iranzo Gutiérrez as Independent Director for the statutory period of 3 years upon proposal by the Nomination, Compensation and Corporate Governance Committee.

- Appoint María Rotondo Urcola as Independent Director for the statutory period of 3 years upon proposal by the Nomination, Compensation and Corporate Governance Committee

- Re-elect Mr. Ignacio Santillana del Barrio as Independent Director for the statutory period of 3 years upon proposal by the Nomination, Compensation and Corporate Governance Committee.

- Re-elect Mr. Juan Carlos Aparicio Pérez as Proprietary Director representing the equity interest of Sociedad Estatal de Participaciones Industriales for the statutory period of 3 years upon proposal by the Board of Directors.

- Re-elect Mr. Adolfo Menéndez Menéndez as Proprietary Director representing the equity interest of Sociedad Estatal de Participaciones Industriales for the statutory period of 3 years upon proposal by the Board of Directors

- Re-elect Mr. Javier de Andrés González as Executive Director for the statutory period of 3 years upon proposal by the Board of Directors.

It is expected that these proposals for appointment and re-election will be submitted for approval at the Annual Shareholders Meeting set for 28 and 29 June at first and second call, respectively, under Item four of the Agenda.

2. Reasons for the Proposals

The terms of six Directors expire during this Meeting, three Independent (Ms. Isabel Aguilera, Ms. Rosa Sugrañes and Mr. Ignacio Santillana), one Executive (Mr. Javier de Andrés) and the two Proprietary Directors representing Shareholder SEPI (Mr. Juan Carlos Aparicio and Mr. Adolfo Menéndez).

The Board has adopted the proposal from the Nomination, Compensation and Corporate Governance Committee for re-election of Mr. Santillana and proposes, after a favourable report from the same committee, the re-election of Messrs. de Andrés Aparicio and Menéndez, and to not go forward with re-election of Ms. Isabel Aguilera and Ms. Rosa Sugrañes for the reasons outlined below.

As regards Ms. Isabel Aguilera, it is noted that at the end of this Meeting she will have completed twelve years as Director and will be unable to continue as an Independent Director in accordance with the provisions of Article 529.12, section 4.i) of the LSC.

As regards Ms. Rosa Sugrañes, it is noted that the Board of Directors, upon proposal by the Nomination, Compensation and Corporate Governance Committee approved in 2016 new criteria to be applied beginning with the 2017 Meeting consisting of the non-recommendation for re-election of those Independent Directors who have been at their posts for three terms. Therefore, the re-election of Ms. Sugrañes is not proposed.

For all of the above reasons, and with the goal of maintaining the current number of Independent Directors on the Board of Directors, the Board has adopted the proposal of the Nomination, Compensation and Corporate Governance Committee to propose to the Meeting the appointment of Ms. Silva Irazo Gutiérrez and Ms. María Rotondo Urcola as new Independent Directors.

With this proposal of the Board, it would continue to contain 13 members, two of whom would be Executive and the rest non-Executive. Of those, 7 Directors would be Independent, representing 53.8% of members of the Board. In addition, the proportion of Proprietary Directors would remain plainly representative of the Shareholder structure of the Company. This composition of the Board fully complies with that contained in the Board Rules and the Code of Good Governance for Listed Companies as regards the size and qualitative composition of the Board, as well as international standards related to independence of the Board.

In crafting the proposal for appointment of Directors brought before the Meeting, upon proposal from the Nomination, Compensation and Corporate Governance

Committee in the case of the Independent Directors and the Board, after a prior favourable report from the Nomination, Compensation and Corporate Governance Committee for the Proprietary Directors and the Executive Director, the Board of Directors took the following factors into consideration:

- As regards the sufficiency of knowledge possessed by the Directors whose appointment is proposed, the professional profiles required by the Board should be judged based on the following criteria:
 - The Board has expressed in its Selection Policy for Directors and has stated publically on various occasions what profiles are required for its members, the last time during the Annual Shareholders Meeting in 2016, when it stated that “the group must include sufficient knowledge, experience and capabilities in the following areas: (i) knowledge of the sectors in which the Company does business as well as related sectors with similar traits; (ii) economics and financial control; (iii) evaluation and supervision of senior managers along with a high level of competence in human resources; (iv) the general economic context and the context of the geographic markets most relevant to the Company; and (v) management and entrepreneurship.”
 - Ms. Iranzo has extensive international experience and specific knowledge regarding financial matters in general, having held senior executive posts in the Public Administration and possessing considerable experience as a member of the board of listed companies.
 - Ms. Rotondo has international experience, specific knowledge in finance and financial control, and extensive experience in management as a senior manager in Telecommunications and Media.
 - Mr. Santillana, in addition to broad knowledge of the sectors in which Indra operates and international experience, possesses specific knowledge and extensive experience in economic and financial matters as well as control.
 - As for Mr. de Andrés, the Board took into consideration the analyses and evaluations made by the Board of its own work, which makes reference to his performance as COO. The Board has concluded that the profile of Mr. de Andrés continues to be appropriate for the discharge of the duties and authority that

have been bestowed upon him. The Board also believes that continuance of the post of COO as a key complement to the Executive Chairman. To this end, he possesses full authority regarding operational management and execution and implementation of strategies and business execution as well as constant supervision of Company activities as assigned by the Board.

- As for the Proprietary Directors, the Nomination, Compensation and Corporate Governance Committee and the Board, without prejudice to considerations of the equity interest that they represent, analysed the professional experience and profiles of Messrs. Aparicio and Menéndez, and concluded that they complement and enrich the Board.
- *Capacity for dedication required in order to carry out their duties* of each of the Directors proposed for re-election or appointment.

The Nomination, Compensation and Corporate Governance Committee has verified that the other professional activities of the Directors whose re-election or appointment is proposed, and whose professional profiles are available on the Company website and in the area created upon call of the Meeting in the corresponding Agenda Item, allow them to devote sufficient and effective dedication to the Board of Directors and the rest of the Committees of which they are members at Indra.

- *Past performance in their post* for the Directors whose re-election is proposed.

The Board has issued a very favourable review of their performance during the prior three year term. During said evaluation, their high level of attendance at meetings of the Board and of the committees to which they belong was also taken into consideration.

- *Maintenance of the requirements for the Director class for each Director considered.*

Upon approval of the Annual Report on Corporate Governance, the Board specifically examined compliance with the legal definition for Independent Directors contained in section four of Article 529 *duodecies* of the LSC, and concluded that no professional or personal circumstances exist which would affect their independent status. The tenure of the Independent Director, Mr. Santillana, whose re-election is proposed, is six years.

As regards the Proprietary Directors, in accordance with the provisions of the Board Rules, the Nomination, Compensation and Corporate Governance Committee has verified that the significant Shareholder whose interests are represented on the Board has maintained as of this date an equity participation in the Company which allows their continuance as such.

- Gender Diversity

Board Rules provide that the Nomination, Compensation and Corporate Governance Committee pay particular attention to criteria which promote gender diversity amongst members of the Board when selecting candidates for directorships. It has done this in the past few years during replacement of Directors, although it is in the area of Independent Directors where the Board and the Nomination, Compensation and Corporate Governance Committee have the greatest capacity to act, given the much wider field of candidates available to fill those posts. As for Proprietary Directors, the Board and the Committee may only recommend that Shareholders consider appointment of women to represent their equity interests; in the case of Executive Directors, circumstances have yet to arise that make the appointment of a woman possible.

In order to replace Ms. Aguilera and Ms. Sugrañes for the reasons explained above, the Committee engaged the consulting firm Spencer Stuart to search for candidates to occupy the posts of Independent Directors. The firm presented an extensive list of candidates for analysis by the Committee, the result of which was the final selection of Ms. Silvia Iranzo Gutiérrez and Ms. María Rotondo Urcola, whose knowledge, abilities and experience comply with the requirements established in the Selection Policy for Directors who would be members of the Board.

Upon approval by the Shareholders of the appointment of the proposed nominees, the Board will maintain its number of two women members, who represent 28% of the Independent Directors and 18% of the External Directors.

In accordance with the provisions of Article 197 bis, the proposals for re-election of Directors are to be voted upon individually and separately whether votes are cast in person or electronically by means created by the Company for such purpose. In the event that attendance cards issued by share depositories do not provide for voting for re-election of each Director individually, Shareholders may indicate their votes for each of them separately and individually on the same attendance card or on a document attached to it, delivered to the Company, and properly signed.

3. Composition by class of Directors should the above be approved at the Annual Shareholders Meeting

COMPOSITION OF THE BOARD OF DIRECTORS 2017	
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External Directors	11
Independent Directors	7
Proprietary Directors	4
Shareholder SEPI	2
Shareholder CFA	2
Executive Directors	2
Chairman	1
COO	1
TOTAL	13

May 2017