

## **REPORT DRAFTED BY THE NOMINATION, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE FOR THE BOARD OF DIRECTORS OF INDRA SISTEMAS, S.A. REGARDING THE PROPOSED APPOINTMENT AND RE-ELECTION OF DIRECTORS**

### **1. Purpose of the Report**

The Nomination, Compensation and Corporate Governance Committee of Indra Sistemas, S.A. (the “Committee”) has drafted this report in accordance with the provisions of Articles 529.10 (section 6) and 529.15 (section 3.d) of the LSC, which establishes that the proposal for appointment or re-election of directors who are not independent should be preceded by a report issued by the Committee.

Furthermore, this report is in compliance with section 4 of Article 529.10 of the LSC, which empowers the Committee to propose appointment or re-election of independent directors.

It is anticipated that the proposal for appointment and re-election of Board members be submitted for approval at the Annual Shareholders Meeting (“Meeting”) held 28 and 29 June 2017 on first and second call, respectively, under Item 4 of the Agenda.

In drafting of the proposals subject of the present report, the Committee took into consideration the following criteria which the selection Policy for directors establishes should be found in candidates who would form part of the Board of Directors of the Company: (i) knowledge of the sectors in which the Company operates as well as other related sectors with similar characteristics; (ii) economics, finance and financial control; (iii) evaluation and management of senior managers and highly skilled human resources management; (iv) the general economic conditions of the geographic regions of most importance to the Company; and (v) management and entrepreneurship.

### **2. Report Regarding the Re-election of Directors other than Independent Directors**

The terms of Executive Director Mr. Javier de Andrés (COO) and of the two Proprietary Directors representing the equity interests of SEPI (Mr. Juan Carlos Aparicio and Mr. Adolfo Menéndez) expire during this Meeting.

The Committee has evaluated, along with whether the Directors whose re-election is proposed have the knowledge demanded in the professional profiles as defined by the Selection Policy for Directors mentioned above, their capacity

for the dedication required for performance of the post, prior performance, and maintenance of the requirements for the class of director to which they belong.

So far as whether knowledge matches the professional profiles demanded for the Board, the Committee believes that the profiles of the proposed directors comply with those requirements:

- Regarding Mr. de Andrés, the Committee has taken into consideration the analyses and evaluations performed by the Board as to his management as COO, having concluded that the professional profile of Mr. de Andrés continues to be appropriate for performance in his post.
- Regarding the Proprietary Directors, the Committee has taken into account the significant equity interest of the Shareholder they represent and has reviewed their professional profiles and concludes that they complement and enrich the Board as a whole.

As to their dedication required for performance of the post, the Committee has verified that the other professional obligations of the Directors, which are included in their profiles, permit them adequate effective dedication to the board of Directors and the Committees of which they are members.

In reference to their prior performance the Committee has given them very favourable reviews during their last three year term.

The high level of personal attendance at meetings of the Board and the committees was also taken into account in the evaluation.

Finally, as to maintenance of the requirements for the class of director to which they belong, the Committee has verified that for the Proprietary Directors whose re-election is proposed, the significant Shareholder whose equity interest they represent on the Board maintains as of this date equity interest which entitles it to said representation.

Based on this, the Committee resolved to submit a report to the Board favouring the following proposals to be brought before the Annual Shareholders Meeting:

- *Re-elect Mr. Juan Carlos Aparicio Pérez for a term of 3 years, as provided for in the bylaws and pursuant to a proposal from the Board of Directors, as a Proprietary Director representing the equity interest of Sociedad Estatal de Participaciones Industriales.*
- *Re-elect Mr. Adolfo Menéndez Menéndez for a term of 3 years, as provided for in the bylaws and pursuant to a proposal from the Board of Directors, as a Proprietary Director representing the equity interest of Sociedad Estatal de Participaciones Industriales.*
- *Re-elect Mr. Javier de Andrés González for a term of 3 years, as provided for in the bylaws and pursuant to a proposal from the Board of Directors, as an Executive Director.*

### 3. Proposal for Appointment and Re-election of Independent Directors

The terms of the Independent Directors Ms. Isabel Aguilera Navarro, Ms. Rosa Sugrañes Arimany, and Mr. Ignacio Santillana del Barrio expire during this Meeting.

La Committee has decided to recommend that the Board of Directors propose re-election of Mr. Ignacio Santillana del Barrio.

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, re-election of Ms. Sugrañes is not proposed.

With the goal of maintaining the number of Independent Directors on the Board and to find substitutes for Ms. Aguilera and Ms. Sugrañes, the Committee engaged the consultants Spencer Stuart in its search for candidates.

The Committee performed an analysis of the profiles presented and selected two candidates: Ms. Silvia Iranzo Gutiérrez and Ms. María Rotondo Urcola, whose knowledge, abilities and experience fulfil the requirements established in the Policy for Selection of Directors for the Board.

So far as adequacy of knowledge of the independent directors whose appointment is proposed relative to the professional profiles defined by the Board, the following aspects should be taken into account:

- 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 wide ranging knowledge in sectors in which Indra operates and international experience, has specific knowledge and significant experience in finance and financial control.

As regards dedication required for performance of the post, the Committee has verified that the other professional duties of Ms. Iranzo, Ms. Rotondo and Mr. Santillana, which are included in their professional profiles, permit an adequate and effective dedication to the Board of Directors and in the case of Mr. Santillana to the committees of which he is a member.

Additionally, Mr. Santillana has received quite favourable evaluation of his performance during the three years of his prior term. That evaluation took into account the high level of personal attendance at meetings of the Board and of the committees of which he is a member.

Finally, as to maintenance of the requirements for the class of director to which Mr. Santillana belongs, the Committee has concluded that no professional or personal circumstances exist which would affect his independent status. The tenure of the Independent Director, Mr. Santillana, is six years.

Base on this, the Committee has agreed to bring before the Annual Shareholders Meeting the following proposals:

- *Appoint Ms. Silvia Iranzo Gutiérrez for a term of 3 years, as provided for in the bylaws and pursuant to a proposal from the Committee, as an Independent Director.*
- *Appoint Ms. María Rotondo Urcola for a term of 3 years, as provided for in the bylaws and pursuant to a proposal from the Committee, as an Independent Director.*
- *Re-elect Mr. Ignacio Santillana del Barrio for a term of 3 years, as provided for in the bylaws and pursuant to a proposal from the Committee, as an Independent Director.*

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