
**NOMINATION, COMPENSATION AND
CORPORATE GOVERNANCE COMMITTEE**
Activities Report 2016

January, 2017

The Committee met nine times during fiscal 2016. This meant, as a function of the time necessary to prepare for meetings and attendance at the meetings themselves, an average commitment of approximately 30 hours annually for each member.

As it does every year, the Committee (i) drafted and approved its Annual Activities Report for the prior fiscal year and (ii) drafted an Action Plan for fiscal 2016 in order to properly plan and organize the duties assigned to it, in which it detailed the regular items and matters to be considered during the year, without prejudice to any extraordinary matters which might arise.

In accordance with said Action Plan for the fiscal year and pursuant to the authority assigned to it by the Board Rules, during 2016 the Committee analyzed and brought to the Board reports and proposals on the following matters:

Nomination of Directors and Assignment of Members to Committees of the Board

➤ **Reelection of Directors at the Annual Shareholders' Meeting:**

The Committee proposed to the Board the re-election of Independent Directors Mr. Luis Lada Díaz and Mr. Alberto Terol Esteban and of Proprietary Directors Mr. Juan March de la Lastra and Mr. Santos Martínez-Conde Gutiérrez-Barquín, whose terms ended in 2016. The Committee analyzed: (i) compliance with the requirements required by the designated class of Director; (ii) continued capacity for dedication; (iii) prior performance at the post; and (iv) the adequacy of their knowledge, aptitude and experience to the professional profiles as defined by the Board.

Additionally, the Committee proposed that the Board approve a new mandatory rotation policy for those Independent Directors who have been at their posts for three terms as defined by the Bylaws, to be effective after the 2017 Annual Shareholders Meeting.

➤ **Creation of an Executive Committee and elimination of the Strategy Committee:**

Taking into consideration the last evaluation of the Board which made it clear that it would be proper for: (i) matters of strategy be dealt with by the Board and not a Committee; (ii) the Board to delegate operational matters of lesser import to an Executive Committee, allowing it to focus more on the analysis of strategy, general policy, supervision and control of executive bodies, and other matters reserved to it under applicable law or the bylaws, the Committee issued a favourable report to the Board regarding the creation of an Executive Committee and the elimination of the Strategy Committee. Creation of the Executive Committee also

presented a good opportunity to modify the meeting schedule for the year, reducing their number and lengthening their duration.

The initial composition of the Executive Committee proposed by the Committee and approved by the Board is the following:

- Chairman: Mr. Fernando Abril-Martorell
- Member: Mr. Javier de Andrés
- Member: Mr. Adolfo Menéndez
- Member: Mr. Juan March
- Member: Mr. Daniel García-Pita
- Member: Mr. Ignacio Santillana
- Member: Mr. Enrique de Leyva
- Member: Mr. Alberto Terol

➤ Designation of members of the Board Committees:

Taking into account elimination of the Strategy Committee, the Nomination, Compensation and Corporate Governance Committee brought the proposals for changes to membership on Board committees:

- a) Audit and Compliance Committee: (i) modify the maximum number of Directors who may be part of the Committee so that it be 6 Directors, and (ii) nominate Mr. Luis Lada as a member.
- b) Nomination, Compensation and Corporate Governance Committee: modify the maximum number of Directors who may be part of the Committee so that it be 6 Directors.

The Committee verified that the procedures for selection of Directors to be appointed or reelected during the fiscal year were in strict conformity with the principles contained in the selection policy for Company Directors.

Evaluation of the Board of Directors

The Committee made a proposal regarding the aspects to be taken into account for the evaluation of the Chairman as well as the weight to be given to each aspect, with the understanding that the performance of the Chairman was very satisfactory.

Compensation for the Secretary of the Board of Directors

The Committee reviewed the compensation of the Secretary of the Board of Directors in order to adapt it to the role performed by the Secretary, and issued a report favouring the proposal that the compensation of the Secretary of the Board be the same as for a Director who is a member of the three Committees and that said criterion be maintained so long as the Secretary effectively carries out his duties.

Composition, Compensation, and Duties of Senior Management

➤ Management evaluation and proposal for 2015 Variable Annual Compensation

The Committee made a proposal to the Board of Directors for variable compensation amounts for each of the members of Senior Management (including Executive Directors) for fiscal 2015. The Committee analyzed the degree to which objectives were met as well as performance and management of each senior manager in his or her area of competence during 2015.

➤ Annual Variable Compensation 2016

The Committee made a proposal to the Board for approval of the objectives for annual variable compensation in 2016 for all Senior Management, analyzing individual quantitative and qualitative management objectives and fixing scores for exemplary performance in order to determine the degree of achievement.

The Committee also proposed to the Board that it raise the maximum value of achievement of some objectives, such as new business.

Final, a proposal was brought to the Board to maintain, in the majority of cases, a qualitative element related to leadership and personnel management, weighted as 10% of the total.

➤ Proposals regarding Key Company Senior Management Personnel

- Appointment of Mr. Hitesh Chaturvedi as new General Manager for Production.
- Bring an end to the contractual relationship with General Manager Mr. Juan Tíao.
- Separate in the medium term certain General Managers for the line of succession for senior managers, such as the manager of Industrial and Consumer Markets, Mr. Manuel Brufau.

- Hiring of a new Head of Internal Audit.

➤ Reorganization of Senior Management and reassignment of duties

The Committee analyzed and made a favourable report regarding:

- Organizational changes necessary in order to achieve the goals in the Company Strategic Plan.
 - Reorganization and reassignment of duties among Senior Management with the goal of beginning implementation of the succession plan in the Air Traffic Management market; improve effectiveness in Transportation market; increased focus on certain zones (Europe and Asia, Middle East and Africa) and accelerate innovation in production areas. For this reason, Mr. Gonzalo Gavín was proposed to be the new head of International Air Traffic and of Indra Navia and Mr. Luis Permuy as head of Asia, Middle East and Africa and that both become members of the Steering Committee.
- Contractual Framework for Senior Management: The Committee gave a favourable report regarding the following proposals:
- An adjustment of compensation for certain Senior Managers affected by a broadening or restriction of their duties as a consequence of the new organizational structure approved by the Board.
 - The procedure and documentation necessary in order to request and receive advances and loans for Steering Committee members.
 - Approval of a new health plan for Senior Managers.

Purchase of Shares by Directors

The Committee was informed regarding the particulars of the purchase of Indra shares by Directors in accordance with verified instructions provided by each one of them individually.

Analysis of Possible Conflicts of Interest with Directors and Significant Shareholders,**Related Party Transactions, and Information Regarding Them****➤ Conflicts of Interest**

The Committee analyzed the following events, submitting a report to the Board with its recommendations:

- The appointment of Mr. Luis Lada Díaz as independent director at the companies: (i) Ence Energía y Celulosa, S.A.; and (ii) Banco Inversis, S.A.
- The information delivered by the Directors regarding their equity participation and regarding duties performed in other companies as well as work done as an independent contractor or offsite, which might present actual competition with the business purpose of Indra or represent a conflict of interest, to include financial statements

➤ Related Party Transactions

The Committee analyzed the following matters and delivered its recommendation regarding them:

- Information regarding related party transactions with significant Shareholders and Directors, including any semi-annual financial reports made to the *Comisión Nacional del Mercado de Valores*, as well as Annual Financial Statements and the Annual Report on Corporate Governance.
- The proposal for authorization of generic types of financial or business transactions with significant Shareholders, as long as they are routine, in the ordinary course of business of the Company, and under market conditions.

Annual Verification of Director Status

- At the time that the Annual Report on Corporate Governance was drafted, the Committee delivered to the Board a report noting favourably that each Director maintained his or her status during the last fiscal year.

- At the time of drafting proposals for reelection of Directors to be submitted to the Meeting, the Committee issued the relevant report regarding its justification that each Director who was a member of the Board on that date should continue to be characterized as having the same status as when they were elevated to the Board.

Corporate Governance and Responsibility

The Committee examined the following matters and made its recommendations to the Board regarding them:

- Proposal for approval of the following policies: (i) Policy on Communication and Contact with Shareholders, Investors and Proxy Advisors; (ii) Policy on Selection of Directors; and (iii) Policy on Corporate Social Responsibility.
- Analysis of the effectiveness and level of compliance with the Company's Corporate Governance rules and procedures during the past fiscal year, resulting in a proposal to the Board that certain articles of the Bylaws be amended, as well as the Board Rules, with the goal of harmonizing said articles to the new version of the LSC and to recommendations contained in the Code of Good Governance for Listed Companies, as well as to reflect creation of the Executive Committee and the increase in the maximum number of Directors who may sit on the Audit and Compliance Committee, and on the Nomination, Compensation and Corporate Governance Committee.
- Also, upon application of certain amendments introduced in EU Regulation No. 596/2014 of 16 April regarding market abuse, the Committee brought a proposal to the Board for a new recompiled text of the Internal Code of Conduct for Matters Related to Securities Markets to bring it in line with the new EU Regulation, which was approved.
- Proposal of the contents and drafting of the Annual Report on Corporate Governance approved by the Board and made public by the Company.
- Proposal of the Annual Report on Compensation which was approved by advisory vote at the Annual Shareholders Meeting in accordance with applicable law and made public by the Company.
- Proposal of the Annual Report on Corporate Social Responsibility, approved by the Board and made public by the Company.

- Approval of the Annual Report Regarding Non Arms' Length Transactions, which was made public by the Company upon call of the Annual Shareholders Meeting.