

REPORT FROM THE BOARD OF DIRECTORS OF INDRA SISTEMAS, S.A. REGARDING THE PROPOSAL FOR AUTHORIZATION OF AN INCREASE IN CAPITAL INCLUDED IN ITEM FIVE OF THE AGENDA OF THE ANNUAL SHAREHOLDERS' MEETING TO BE HELD 28 AND 29 JUNE 2017 ON FIRST AND SECOND CALLS, RESPECTIVELY

1. Purpose of the Report

This report is drafted by the Board of Directors of Indra Sistemas, S.A. ("Indra" or the "Company") in accordance with the provisions of Articles 286, 297.1.b) and 506 of the *Ley de Sociedades de Capital* ("Spanish Corporations Act" or "LSC") in support of the proposal regarding authorization for the Board of Directors ("Board") of the Company that, for a period of five years, it be allowed to increase capital stock in an amount up to half of the capital stock at the time of the authorization, in one or more tranches and at times and in amounts that it considers appropriate, with the additional authority to waive pre-emptive rights as provided for in Article 506 of the LSC.

2. Justification

Without prejudice to the specific reasons explained below which justify the renewal of authority to increase capital given at the last Annual Shareholders meeting held 30 June 2016, the members of the Board of Directors of Indra believe that this proposal for delegation of authority brings about the dynamism in operations necessary to carry out the increases in company capital stock animated by the normal development of the Company's business activities. It would be in the Company's best interests, as it would avoid the expense and delays involved in convening and holding Shareholders' meetings which would otherwise be necessary. This dynamism is of great importance, not only because of demands that might arise at any time due to market conditions and circumstances, but also taking into account the proposed resolutions submitted, jointly to those which motivate this report, to the approval by the Shareholders of Indra, since it is expected the issuance of obligations and other instruments convertible to Company shares.

Given these circumstances, it is in the best interests of the Company to endow the Board of Directors with the greatest possible flexibility in order to attend to the needs of the Company in a manner consistent with the normal practices of the majority of listed companies. It is for this reason that it is proposed that authority

be granted to the Board of Directors of the Company at the Meeting so that the Board may increase capital stock one or more times in the amounts, times, conditions and other circumstances that it deems appropriate, up to one half the amount of capital stock in existence at the time of the granting of said authority, during a maximum period of five years and in accordance with applicable law, as well as those acts which may be necessary in order that new shares created as a result of said increases in capital be admitted for trading on domestic and foreign stock exchanges in accordance with rules imposed by said exchanges.

Furthermore, Article 506 of the *Ley de Sociedades de Capital* provides that listed companies may not only delegate the authority to increase capital stock at annual shareholders' meetings in accordance with Article 297.1.b), but they may also delegate to the board of directors the power to waive pre-emptive rights consistent with the requirements of said article.

Any time the power to waive pre-emption rights is exercised, the par value of the shares to be issued plus the share premium should reflect the fair market value of Company shares contained in a report drafted by an account auditor other than the Company auditor, appointed for this purpose by the *Registro Mercantil*, upon request by the Board of Directors.

The Board believes that there are several justifications for including the power to waive pre-emption rights concurrent with an increase in capital stock. First of all, such issuances normally involve reduced transactional costs including, in particular, commissions paid to financial institutions participating in the offering, when compared with an issuance with pre-emptive rights. Secondly, it markedly speeds up the action and response time for the Board of Directors, permitting the Company to take advantage of those windows of opportunity when market conditions are most favourable. Additionally, eliminating pre-emption rights allows the Company to optimize the financial aspects of the transaction and, in particular, the issue price of new shares, in allowing a more precise assessment of the expectations of qualified investors who normally are the source of this type of capital increase, while at the same time minimizing transactional risks by reducing exposure to changes in market conditions.

Finally, fluctuations in trading Company shares are mitigated during the issuance period, which is usually shorter than an issuance with pre-emptive rights.

Ultimately, it is a tool whose use in a specific transaction involving an increase in capital could be crucial for its success and the lack of which could represent a loss of agility and loss of an important advantage relative to companies which compete with Indra Sistemas, S.A. in attracting funds from primary markets.

In all cases, the ability to waive pre-emptive rights is a power which may be delegated to the Board of Directors at the Annual Shareholders' Meeting, and the Board is to exercise said right taking into consideration specific circumstances, the best interests of the Company and the requirements of applicable law, deciding on a case by case basis whether to waive said right.

In the event that the Board were to decide to exercise its power to waive pre-emptive rights regarding a specific increase in capital stock in accordance with the authority given to it at the Meeting, a report would be drafted by the administration and a report would be drafted by an independent expert other than the Company account auditor as required by Article 308 of the LSC, which reports will be made available to Shareholders on the Company website and published at the first Annual Shareholders' Meeting held after adoption of the resolution to increase capital.

Furthermore, consistent with internationally recognized best practices in corporate governance, and in particular Recommendation 5 of the 2015 Code of Good Corporate Governance for Listed Companies, the power to totally or partially waive pre-emption rights will be limited to increases in capital stock brought about under this particular authority and for the purposes described in Item 6 of the Agenda up to a maximum aggregate amount of 20% of the current capital stock of the Company.

The proposal provides for application, when appropriate, for permission to trade the shares issued by the Company pursuant to this authority on domestic or foreign secondary markets whether regulated or not, over the counter or on an exchange, and empowerment of the Board to carry out procedures necessary for listing with competent bodies of the various national or foreign securities markets.

It is also proposed to expressly authorize the Board to delegate the powers referred to in this proposed resolution.

Finally, it is be pointed out that the delegation of authority to the Board contained in the proposed resolution will render null and void any unused portion of that authority granted at the Meeting held 30 June 2016.

The portion of said authority already used consists of the increase in capital approved by the Board on 26 September 2016 in order to respond to potential conversion requests arising from convertible bonds without pre-emptive rights in a total amount of 250 million euros with a 7 year maturity also approved on the same date. Carrying through with this increase in capital would mean issuance of no more than 17,087,500 new shares. Said increase in capital is still pending execution, since none of the bonds have yet been converted.

As a result, in calculating the limits of authority to be agreed upon at the Meeting today under this Agenda Item, the abovementioned increase in capital agreed under the prior authority granted at the Meeting held in 2016 will not be considered. Additionally, the maximum amount of this new authority will be calculated based upon the new amount of capital stock resulting from the increases in capital approved at the Extraordinary Shareholders Meeting held this past 20 February 2017 and realized after closing of the public offer by Indra for shares of TecnoCom, Telecomunicaciones y Energía S.A., causing the capital of the Company to rise to 35,330,880.40 euros represented by 176,654,402 shares with a par value of 0.20 euros each.

The PROPOSED RESOLUTION to be submitted for approval at the Annual Shareholders' Meeting is the following:

DELEGATION TO THE BOARD OF DIRECTORS, WITH EXPRESS POWER TO SUB-DELEGATE, THE AUTHORITY TO INCREASE THE CAPITAL STOCK OF THE COMPANY CONSISTENT WITH THE CONDITIONS CONTAINED IN ARTICLE 297.1.B) OF THE LSC, INCLUDING BY MEANS OF THE ISSUANCE OF REDEEMABLE SHARES, AND THE AUTHORITY TO WAIVE PRE-EMPTIVE RIGHTS, IN WHICH CASE ANY INCREASE OF CAPITAL PURSUANT TO THIS DELEGATION MAY NOT EXCEED 20% OF THE CAPITAL STOCK OF THE COMPANY AT THE TIME OF AUTHORIZATION AT THE ANNUAL SHAREHOLDERS' MEETING, IT BEING UNDERSTOOD THAT SAID LIMITATION INCLUDES THE AMOUNT OF ANY INCREASE IN CAPITAL WHICH MAY ARISE FROM THE APPROVAL AND EXECUTION OF THE PROPOSAL CONTAINED IN ITEM 6 OF THE AGENDA.

In accordance with the report drafted by the Board of Directors under the provisions of Article 286 of the LSC, delegate to the Board the power to increase, in

one or more tranches, the capital stock of the Company at any time and under terms and limits contained in Article 297.1 b) of the LSC, that is, within five years from the date of adoption of the resolution and in an amount not to exceed one half of the current capital of the company.

Increases in capital stock carried out under this authority will be done by means of issuance and placement into circulation of new shares, with or without a share premium, and paid for in cash.

For each increase, it will be up to the Board to decide if the new shares should be common, preferred, redeemable, non-voting or any other type permitted by law.

It is further agreed to empower the Board to set the terms and conditions of any increases in capital stock and the types of shares when such are not made explicit in this resolution, as well as freely offering new unsubscribed shares during the period or periods for exercising pre-emptive rights. The Board may also decide that, in the event that the capital increase is not fully subscribed, that such increase shall only be in the amount actually subscribed and that the corresponding article in the Bylaws will be amended regarding capital stock and number of shares.

For any of the increases in capital stock realized under the aegis of the present authority, the Board shall have the power to waive, partially or entirely, any pre-emptive rights under the terms of Article 506 of the LSC, so long as this authority is limited to increases in capital stock brought about under this resolution, so long as its purpose is consistent with Item 6 of the Agenda, and so long as the maximum amount authorized, in the aggregate, is no more than 20% of the current capital stock of the Company.

The Company may apply, when appropriate, for permission to trade the shares issued by the Company pursuant to this authority on secondary markets whether regulated or not, over the counter or on an exchange, domestic or foreign, and the Board is empowered to carry out procedures necessary for listing with competent bodies of the various national or foreign securities markets.

The Board of Directors is expressly authorized to delegate, under the provisions of Article 249 bis section L) of the LSC, the power to develop, complete, implement, interpret and correct capital stock increases referred to this agreement.

The current delegation of authority will render null and void any unused portion of that authority granted at the Meeting held 30 June 2016.

May 2017