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INDRA SISTEMAS, S.A.

Special Report regarding the issue of bonds convertible and/or exchangeable for shares under the provisions of Articles 414, 417 and 511 of the *Ley de Sociedades de Capital*



SPECIAL REPORT REGARDING THE ISSUE OF BONDS CONVERTIBLE AND/OR EXCHANGEABLE FOR SHARES UNDER THE PROVISIONS OF ARTICLES 414, 417 AND 511 OF THE *LEY DE SOCIEDADES DE CAPITAL*

To the Shareholders Meeting of Indra Sistemas, S.A.:

Pursuant to the provisions of Articles 414, 417 and 511 of the *Ley de Sociedades de Capital* (“Spanish Corporations Act” or “LSC”), and pursuant to the charge received from Indra Sistemas, S.A. (“Indra” or the “Company”), and by designation of the *Registrador Mercantil y de Bienes Muebles Número V de los de Madrid*, (“Commercial and Chattel Property Registrar Number V of Madrid”) Mr. Francisco Javier Navia-Osorio, corresponding to file number 477/16, we issue the present Special Report regarding the proposal of management to issue bonds convertible or exchangeable for Indra shares and excluding preemptive rights (the “Convertible Bonds”), under the delegation of authority granted at the Indra Annual Shareholders Meeting held 30 June 2016.

1. Antecedents and purpose of our task

Indra is a Spanish company, registered in Madrid and incorporated on 9 June 1993. All of the equity shares of Indra are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and are included in the *Sistema de Interconexión Bursatil Español (Mercado Continuo)*.

According to the information and documentation received, on 26 September 2016, under authority granted to it at the Annual Shareholders Meeting held 30 June 2016, the Board of Directors of Indra adopted a resolution to bring forth an issue of convertible bonds with no preemptive rights in an initial amount of up to 250 million euros, expandable to up to 50 million euros more, with a seven year maturity date. At the same time it approved the management report attached as Annex 1 to this report.

By virtue of said delegation, Indra management has drafted a management report, attached as Annex 1, accompanied by a certification of the resolutions from of the Board dated 26 September 2016, in which it justifies the proposal and the share conversion ratio for the convertible bonds to be issued. In accordance with the information obtained, the issuance will be carried out consistent with the terms and conditions found in the management report previously approved by the Board of Directors.

The goal of our work is not to certify the price or conversion ratio of the convertible bonds. The objectives of our work consist exclusively of the following:

- Declare, by applying the procedures established in the *Norma Técnica de Elaboración de Informes Especiales* (“Technical Rules for Drafting Special Reports”) regarding the issuance of convertible bonds under Article 414 of the LSC, whether the report drafted by Indra management and attached as Annex 1 to this Special Report, contains the required information, set forth in the above cited Rules, which includes an explanation of the bases and methods for conversion of the corresponding convertible bonds.

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- Issue a technical judgment, as independent experts, regarding the reasonableness of the data contained in the Indra management report relative to the issue of the convertible bonds excluding preemptive rights and regarding the suitability of the conversion ratio of the convertible bonds and, if applicable, of adjustment formulas in order to offset a potential dilution of shareholder equity interest positions, all in accordance with the provisions of Article 417 of the LSC.

The accounting information used in the present work was obtained from the consolidated annual financial statements of Indra and subsidiaries (“The Group” or “Indra Group”) for the fiscal year ended 31 December 2015, which were audited by KPMG Auditores, S.L. and who issued an audit report dated 18 March 2016 in which a favourable opinion was expressed.

2. Procedures applied in our work

Our work has consisted in applying the following procedures in accordance with the Technical Rules for Drafting Special Reports regarding the issuance of convertible bonds under Article 414 of the LSC, as well as those additional procedures which we have considered necessary in order to comply with the provisions of Articles 417 and 511 of the LSC:

- (a) Obtaining notice, as well as the corresponding appointment, from the Commercial and Chattel Property Registrar Number V of Madrid, Mr. Francisco Javier Navia-Osorio, dated 21 September 2016 of our designation as an independent expert as defined under the provisions of Articles 414, 417 and 511 of the LSC, in file number 477/16 related to Indra Sistemas, S.A.
- (b) Obtaining the resolution of the Board of Directors of Indra regarding the issuance of bonds convertible to newly issued shares or exchangeable for existing common stock of the Company, dated 26 September 2016.
- (c) Obtaining the resolution of the Annual Shareholders Meeting of Indra of 30 June 2016 related to the delegation to the Board of Directors of Indra the power to issue convertible bonds and to exclude preemptive rights.
- (d) Obtaining the report drafted by Indra management explaining the bases and methods of conversion, dated 26 September 2016 and which is attached as Annex 1 of this report.
- (e) Obtaining the audit report for the Indra Group for the fiscal year ended 31 December 2015, cited earlier, and the unaudited condensed consolidated interim financial statements for 30 June 2015
- (f) Verification that the report drafted by management regarding the proposal for the issuance of bonds convertible to newly issued shares or exchangeable for existing common stock of the Company contains the information considered necessary and sufficient for its interpretation and adequate understanding by its readers in accordance with the provisions of Articles 401 and 413 of the LSC including significant subsequent facts that could affect the proposed issuance of convertible bonds.



- (g) Obtaining and analyzing the information used by Indra management in determining the bases and conversion methods for the convertible bonds and comparing them with generally accepted valuation methods (cash flow discounts, multiples of comparable listed companies, analysis of recent analysts' reports regarding Indra shares and the binomial options pricing model).
- (h) Verifying that, consistent with the management report, the issue price of the convertible bonds is not below its own par value and that the conversion price for shares is not below the par value of the shares to which the bonds would be converted nor below the net asset value resulting from the last audited annual financial reports of Indra Group.
- (i) Evaluation of the reasonableness of the data contained in the management report justifying the proposed issue of convertible bonds and the reasons and documentation made available which justify exclusion preemptive rights.
- (j) Verification that the accounting information contained in the management report concurs with the information contained in the annual consolidated financial statements for Indra for fiscal 2015.
- (k) Obtaining information from the account auditor for the Company regarding potential significant events or factors regarding the economic and equity position of the Company and of the Indra Group which would be known post issuance of the last audit report supplied to us.
- (l) Analysis of significant subsequent facts occurring after the preparation of the consolidated annual financial statements of Indra Group for fiscal 2015 including Material Facts communicated to the *Comisión Nacional del Mercado de Valores* ("Spanish Securities Exchange Commission" or "CNMV") up to the date of the present report.
- (m) Holding meetings with Indra senior management in order to obtain information regarding financial developments at Indra Group during the first half of 2016 and up to the date of the present report which might significantly affect the net equity position of Indra Group and its valuation, as well as obtaining explanations regarding financial projections which are offered to financial analysts for the upcoming years and discussion of key financial assumptions and their impact on our work.
- (n) Reading of the available minutes of the meetings of the Board of Directors and the Annual Shareholders Meeting held in fiscal 2016 up to the date of issuance of this report.
- (o) Request for prior agreements among shareholders and other third parties which might have an impact on the valuation of Indra shares.
- (p) Holding of meetings with Indra managers for the purpose of obtaining information regarding questions arising during the course of our work, as well as other factors that could significantly affect the value of the Group of which could be of interest for the object of our work.



(q) Study of the changes in list price of Company shares and determination of the average list price of said shares during the last representative listing period before the date of this Special Report (the last six months) and of the last list price available before said date, considering as well frequency and quotation sizes for the periods which are the subject of this analysis.

(r) Determination of the theoretical value of the preemptive rights whose exercise it is proposed to be excluded, calculated with reference to the average list price for the last representative period and the last list price for the Company before the date of this Special Report and the underlying net book value of the Group.

(s) Analysis of the suitability of the conversion ratio and the formulas for adjusting it in order to offset any potential dilutive effect for shareholders.

(t) Obtaining a letter of representation from Indra senior management in which they confirm to us, among other things, that they have delivered all of the information necessary for the preparation of our Special Report, that they have informed us of all relevant assumptions, data and information, and that there have been no subsequent events up to the date of our Special Report of which we are unaware that might have a significant impact on the conclusions in our work.

3. Evaluation of the conversion ratio and its adjustment formulas

The report prepared by management proposes that the conversion ratio for the convertible bonds be subject to certain adjustments in circumstances described in the terms and conditions for the issuance.

Accordingly, said conversion ratio or reference price for the shares during conversion or exchange has been determined taking into account the list price of Company shares, on the bases of the average weighted price as a function of trading volume for Indra shares on the Spanish stock exchanges during the period from the moment that book building starts on the anticipated date of issue and the moment of setting the final price.

The minimum conversion price has been set at 14.629 euros (see Annex 2). This price is above the average listed share price for the 30 day period before the issue resolution by the Board of Directors approving the issue.

The list price on 27 September 2016 was 12.00 euros and the average list price per share for the 6 month period ending 27 September 2016 was 10.53 euros.

Considering the above mentioned listing data, the conversion price proposed by management is above the consolidated net book value per share for Indra stock currently in circulation, which amounted to 1.791 euros per share as of 31 December 2015 according to the Indra Group audited annual financial statements for fiscal 2015. Additionally, the above cited conversion price is higher than that which would result using the unaudited consolidated net book value for 30 June 2016, the date for the last submission of financial information to the CNMV, which amounts to 1.948 euros per share.



The conversion price would not produce a potential dilutive effect on the list value per share for the six month period ending 26 September 2016, nor on 26 September 2016, nor on the date of issuance, nor on the audited net book value as of 31 December 2015.

4. Relevant aspects and special challenges to consider in the interpretation of the results of our work

Interpretation of the requirements of Articles 414, 417 and 511 of the LSC, as well as the opinions expressed in this report, contain assumptions in addition to objective factors, other subjective factors which require judgment and, for that reason, it is impossible to ensure that third parties will necessarily be in agreement with the interpretation and judgments expressed in this report.

The information necessary for the preparation of our work was provided by the senior management of Indra or was obtained from public sources.

As regards information obtained from public sources, it was outside the scope of our work to compare said information with external evidence, without prejudice to the fact, to the degree possible, we have confirmed that the information presented is consistent with other data obtained during the course of our work.

We are not obliged to update our report because of events which may occur after the date of its publication. The content of this report should be understood to contain in its entirety information received regarding occurrences which predate it.

We assume that all of the authorizations and registrations, if any, which might be necessary to carry out the transaction and which might affect our work will be obtained without any adverse affect on the objectives of the transaction subject of our analysis.

Finally, it is important to point out that our work is independent in nature and for that reason does not constitute any recommendation to Indra senior management, Company shareholders, or third parties regarding any position they should take regarding the convertible bond issue.

5. Conclusion

In accordance with the scope of the work carried out as described in the above paragraphs, and subject to relevant aspects to be considered in the interpretation of our work, all of which was done with the exclusive object of complying with the requirements contained in Articles 414, 417, and 511 of the LSC, in our professional opinion:

- The management report of Indra, attached, regarding the resolution for bonds convertible for newly issued shares or exchangeable for existing Company common stock, without preemptive rights, contains the information required by the Technical Rules for preparation of Special Reports regarding the issuance of convertible bonds as provided for in Article 414 of the LSC and the data contained in the cited management report are reasonable for the reason that they are adequately documented and explained, and
- The conversion ratio of the bonds for Indra shares with no preemptive rights and the



adjustment formulas used to offset any possible dilutive effect on shareholders' equity positions are adequate.

This Special Report was prepared solely for the purposes described in Articles 414, 417 and 511 of the LSC, and is not to be used for any other purpose.

PricewaterhouseCoopers Auditores, S.L.

PricewaterhouseCoopers

María Pla de la Rosa

28 de septiembre de 2016