

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

1. Purpose of the Report

The Board of Directors of Indra Sistemas, S.A. (the "Board") drafted this report in accordance with Article 529. decies (section 4) of the *Ley de Sociedades de Capital* ("Spanish Corporations Act" or "LSC") as regards proposals for appointment or re-election of Proprietary Directors which it brings before the Annual Shareholders Meeting (the "Meeting"), and in accordance with section 5 of the said article as regards proposals for appointment or re-election of Independent Directors.

As required by Article 20.3 of the Regulations of the Board of Directors of Indra ("Board Rules"), persons nominated to the Board must be of good personal and professional reputation, with sufficient capacity for dedication to the post, and without interests which conflict with the discharge of their duties. The current selection policy for Directors provides for the following criteria to be followed in the choice of candidates: knowledge of (i) the sectors in which the Company does business as well as related sectors or those with similar characteristics; (ii) finance and control matters; (iii) evaluation and supervision of senior management and executive level human resources; (iv) economics in general and specifically in the geographic markets of highest importance to the Company; (v) management and business entrepreneurship.

Considering these criteria and requirements, and with a focus on the current needs of the Board, the Board of Directors brings before the Shareholders: (i) proposals for appointment and re-election of Proprietary Directors; and (ii) a report on proposed appointment and re-election of Independent Directors, which will be discussed below.

Professional profiles of the nominees for appointment or re-election will be made available to Shareholders from the moment of call to the Meeting on the Company website.

2. Proposal for appointment and Re-election of Proprietary Directors

On 31 January 2019, after receiving a favorable report from the Nomination, Compensation and Corporate Governance Committee ("Nomination Committee"), the Board resolved to appoint through cooptation as Proprietary Directors Mr. Antonio Cuevas Delgado and Mr. Miguel Sebastián Gascón representing the equity interests of Sociedad Estatal de Participaciones Industriales (SEPI).

As provided for in Articles 244 and 529. decies of the LSC, Directors appointed by the above mentioned cooptation procedure occupy their posts until the date of the next Meeting.

In addition, the term of Mr. Santos Martínez-Conde Gutiérrez-Barquín, Proprietary Director representing the equity interests of Corporación Financiera Alba, S.A., will end at the next Meeting.

Further to the favourable report made by the Nomination Committee, the Board brings before the Meeting, in accordance with the provisions of section 4 of Article 529.decies of the LSC, a proposal for appointment of Messrs. Cuevas and Sebastián and the re-election of Mr. Martínez-Conde as Directors. For the drafting of the report, the Board followed the procedure described in Company rules regarding appointment of Proprietary Directors and analysed the current Company criteria, taking into account as well the reasons behind the nominations of Messrs. Cuevas, Martínez-Conde and Sebastián in the past.

Their career paths and their professional profiles were evaluated in analysing the sufficiency of knowledge requirement. The Board concluded that the profiles of the above-mentioned Directors meet the knowledge and experience requirements for Board membership, and that they are all capable of carrying out the duties of Director in accordance with the criteria set forth in the Board Rules and in the Selection Policy for Directors mentioned above:

- Mr. Martínez-Conde is CEO of Corporación Financiera Alba and a director at Banca March, and has extensive experience in finance, financial control issues, business management, and entrepreneurship. He also possesses a wide range of experience as a director of other listed companies.
- Mr. Cuevas has broad knowledge of the sectors in which Indra does business, as well as other sectors which are related or which have similar characteristics (National Defence and Aerospace), having spent his professional career doing fieldwork in the Industry, among others.
- Mr. Sebastián has extensive experience and knowledge in finance and economics, having occupied important domestic and international posts in this field.

As regards capacity for dedication to the post, the Board verified that the other professional commitments of Messrs. Cuevas, Martínez-Conde and Sebastián, which are described in their professional profiles, permit them adequate effective dedication to the Board of Directors and the committees to which they are members.

Additionally, as regards Mr. Martínez-Conde, his performance for the past six years received a very high evaluation, and he achieved a very high level of personal attendance at Board meetings and meetings of the committees of which he has been a member.

As regards maintenance of the requirements demanded by the class of Director involved, in accordance with Board Rules, the Board verified that the Shareholders whose significant equity interests are represented maintain sufficient equity interest in the Company to justify said representation on the Board.

After this analysis, the Board resolved to bring before the Meeting the following proposals:

- *Appoint Mr. Antonio Cuevas Delgado Proprietary Director for a term of 3 years under the Bylaws representing the equity interest of Sociedad Estatal de Participaciones Industriales (SEPI), upon proposal by the Board of Directors.*

- *Appoint Mr. Miguel Sebastián Gascón Proprietary Director for a term of 3 years under the Bylaws representing the equity interest of Sociedad Estatal de Participaciones Industriales (SEPI), upon proposal by the Board of Directors.*
- *Re-elect Mr. Santos Martínez-Conde Gutiérrez-Barquín Proprietary Director for a term of 3 years under the Bylaws representing the equity interest of Corporación Financiera Alba, S.A.*

3. Report on the Proposal made by the Nomination, Compensation and Corporate Governance Committee to Appoint and Re-elect Independent Directors

The terms of Independent Directors Mr. Luis Lada and Mr. Alberto Terol Esteban will end at the next Meeting.

On this date Mr. Lada Díaz will have completed the maximum 12-year period during which a Director may be considered independent pursuant to Article 529.dudecies section 4 i) of the LSC and for which reason his re-election is not proposed.

In 2016 the Board approved a more restrictive criterion for Independent Directors than that provided by law and incorporated the new criterion into the 2018 Director Selection Policy, consisting of not recommending for re-election those Directors who have been at their posts for 3 terms under the Bylaws, establishing thereby a maximum duration of 9 years.

Nonetheless, in the case of Mr. Terol, who has been an Independent Director at the Company since June 2010, upon proposal by the Nomination Committee, the Board approved to make an exception on the application of this criterion and brings before the Meeting the proposal of the Nomination Committee for his re-election to a new term under the Bylaws.

In reaching this conclusion, the Board took into consideration the following circumstances examined by the Nomination Committee in drafting its proposal:

- His contribution and performance as Independent Director during his three terms, during which he has served as chair of the Audit and Compliance Committee and of the Nomination Committee, as well as his notable work as Lead Independent Director, a post in which he has served only the last two years.
- His deep understanding of the Company at a time of transformational change and implementation of a new Strategic Plan for which his experience is an essential asset.
- His professional profile taken in its entirety, with quite broad and valuable knowledge and experience for the Company and its Board of Directors.
- Recent accelerated turnover on the Board of Directors has meant that since June 2017 there have been seven new Directors, meaning that if Mr. Terol were not re-elected, then at the next Meeting 9 of the 13 total and 5 of the 7 Independent Directors would have served an average of 12 months, reasons for which the

experience and historical knowledge of Mr. Terol would be critical to the Board and its committees.

In order to cover the vacancy produced by the departure of Mr. Lada, and applying the rigor necessary in the selection process of those persons who are to fill the post of Independent Director (Article 20.4 of the Board Rules), the Nomination Committee has sought the advice of an external consultant of renowned prestige (Spencer Stuart), specialists in the selection process for directors.

Taking into account the experience and knowledge considered necessary, and the commitment to gender diversity contained in the Director Selection Policy, at the beginning of the selection process the Nomination Committee drew up a profile of the ideal candidate to cover the vacancy left by Mr. Lada and to complement and strengthen the profile of the current members.

The Nomination Committee and the Board examined corresponding reports issued by the external consultant in which it evaluated the abilities and experience of each candidate and the Nomination Committee conducted personal interviews with them in order to make the best judgment possible. The Board agrees with the Nomination Committee's proposal to nominate as Director Ms. Isabel Torremocha Ferrezuelo, whose knowledge, abilities and experience meet the requirements described above.

The analysis carried out by the Nomination Committee and adopted by the Board consisted of the following:

As for adequacy of experience and knowledge of the Directors whose appointment or re-election is proposed, the following facts should be taken into consideration:

- Mr. Terol has wide ranging experience and knowledge in the sectors in which the Company does business; in financial matters, audit and control; in general economic matters; international experience in the geographic markets of importance to the Company; as well as business management and entrepreneurship. He is a director on the boards of other listed companies.
- Ms. Torremocha has a broad-based knowledge of finance and the sectors in which Indra does business, with a large amount of experience both domestically and internationally in the world of professional services. She also has experience in the evaluation and management of executive level human resources and strategic vision. She is a member of the board of another listed company.

As for capacity for dedication to the post, the Board verified that Ms. Torremocha's and Mr. Terol's other professional commitments, which are included in their professional profiles made available to Shareholders, let them adequate effective dedication to the exercise of their duties as Directors at Indra.

In the case of Mr. Terol, as indicated above the Board gave a very positive evaluation of his prior discharge of his duties in the post and took into account his level of personal attendance at meetings of the administrative bodies of which he has been a member.

Finally, in considering compliance with the requirements examined by the Committee regarding typology of Director, the Board verified that there are no personal or professional circumstances which would affect the classification of Ms. Terremocha and Mr. Terol as Independent Directors.

Upon this analysis, the Board brings the following proposals drafted by the Nomination Committee to the Meeting:

- *Re-elect Mr. Alberto Terol Esteban as Independent Director for a term of 3 years under the Bylaws, upon proposal by the Nomination, Compensation and Corporate Governance Committee.*
- *Appoint Ms. Isabel Torremocha Ferrezuelo as Independent Director for a term of 3 years under the Bylaws, upon proposal by the Nomination, Compensation and Corporate Governance Committee.*

4. Composition and Diversity of the Board of Directors and its Committees.

Should the proposals brought before the Meeting be approved, the Board will continue to be composed of 13 members, 3 of which will be Executive and the other 10 External. Of these, 7 Directors will be Independent, representing 53.8% of the members of the Board. The proportion of Proprietary Directors will also remain consonant with the Shareholder structure of the Company. This composition complies completely with the Board Rules as well as the Code of Good Governance for Listed Companies so far as the size and qualitative composition of the Board of Directors (wide majority of non-executive directors and an adequate proportion of proprietary to independent directors) as well as international standards regarding the independence of the Board.

COMPOSITION OF THE BOARD OF DIRECTORS 2019	
External Directors	10
Independent Directors	7
Proprietary Directors	3
Shareholder SEPI	2
Shareholder CFA	1
Executive Directors	3
CEO	1
Executive Directors	2
TOTAL Directors	13

As for the aggregate experience and knowledge of the Board, the Board concludes that the resulting composition of these proposals for the cohort of Board members adequately encompasses the knowledge, abilities, qualifications, diversity and experience needed by the Company.

As for the composition of the Audit and Compliance Committee, upon proposal by the Committee and subject to approval at the Meeting of the proposals for appointment and re-election analysed above, the Board has resolved to name Ms. Torremocha a member of said committee replacing Mr. Lada.

Consistent with the provisions of Article 529.2. quaterdecies of the LSC, at the next Meeting Mr. Santillana will complete 4 years as chair of the Audit and Compliance Committee, being compulsory his replacement as chair. The Committee has made a favourable report about the designation of Mr. Enrique de Leyva as chair of the Audit and Compliance Committee, taking into consideration his knowledge and experience in matters related to the duties of the committee. The Audit and Compliance Committee will adopt formally the said appointment at its June session, although all its members already agree it.

Should the proposals for appointment and re-election of Directors brought before the Meeting be approved, the composition of the Audit and Compliance Committee beginning that date will be the following:

Audit and Compliance Committee		
Enrique de Leyva	Independent	Chairman
Maria Rotondo	Independent	Member
Ignacio Santillana	Independent	Member
Isabel Torremocha	Independent	Member
Santos Martínez-Conde	Proprietary	Member
Miguel Sebastián	Proprietary	Member

As for the Nomination Committee, subject to approval at the Meeting of the proposal for re-election of Mr. Terol, the Nomination Committee has unanimously approved that Mr. Terol continue as chairman. Composition of said committee after the Meeting would be the following:

<u>Nomination, Compensation and Corporate Governance Committee</u>		
Alberto Terol	Independent	Chairman
Silvia Iranzo	Independent	Member
Ignacio Martín	Independent	Member
Antonio Cuevas	Proprietary	Member
Santos Martínez-Conde	Proprietary	Member

These memberships comply with the norms and standards for Independence for Board committees.

It is noted that, subject to approval at the Meeting of his re-election as Director upon proposal of the Committee, the Board has resolved that Mr. Terol continue discharging his duties as Lead Independent Director, and as the Vice Chair of the Board (pursuant to the provisions of Article 10.7 of the Board Rules).

The Board of Directors as well as the Nomination Committee are aware of the importance of promoting gender equality and of the importance of incorporating women into the Board when they meet the requirements of ability, appropriateness and dedication to the post of Director, deliberately seeking candidates who possess the required professional profile.

This criterion has been integrated into the Director Selection Policy, which expressly promotes the application of gender diversity criteria as well as other circumstances, without introducing implicit biases which might lead to discrimination for any reason.

Referring to gender diversity, the above-mentioned Policy specifically provides the goal of reaching a minimum of 30% female representation among members of the Board by 2020.

Should the proposals for appointment and re-election above be approved at the Meeting, Indra will have already reached that objective this fiscal year, given that the total number of women on the Board would be four, representing 30.77% of the total number of Directors. The cohort of women also represents some 42.86% of the Independent Directors and 33.33% of Executive Directors.

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