

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

1. Purpose of the Report

The Board of Directors of Indra Sistemas, S.A. has drafted this report in compliance with sections 4 and 6 of Article 529.10 of the Ley de Sociedades de Capital ("Spanish Companies Act" or "LSC"), which provide that proposals for appointment and re-election of directors other than independent directors should be brought by the Board, and in the case of independent directors, the proposal for their appointment or re-election is to be preceded by a supporting report from the Board.

As explained in the call to the Annual Shareholders Meeting ("Meeting"), proposals for appointment and re-election of Directors are subject to individual votes under Item Four of the Agenda.

In order to prepare the proposals subject to this report, the Board reviewed the criteria and requirements that are considered necessary for the post of Director as contained in the current Policy for choosing them: (i) knowledge of the sectors in which the Company operates as well as other related or similar sectors; (ii) finance and control matters; (iii) assessment and supervision of senior managers and highly qualified human resources; (iv) general economic environment of the geographic markets most relevant to the Company; and (v) management and entrepreneurship.

The Board also reviewed its current composition and considered its size (13 Directors) as appropriate to encourage its effective performance, participation of all Directors, and agility in decision-making. Also, its qualitative composition (three Executive Directors and ten external -7 Independent and 3 Proprietary-) conforms with best practice in this area, that is, a great majority of non-executive Directors and an appropriate ratio between Proprietary and Independent Directors, the latter representing more than half of the Directors.

This composition would remain constant upon approval of the proposals for appointment and re-election of Directors submitted at Meeting.

2. Report on the appointment and re-election of Executive Directors

2.1. - Re-election of Mr Fernando Abril-Martorell as Executive Director

The term of the current CEO, Mr Fernando Abril-Martorell, will expire at the Meeting. For issuance of its report the Board took the following criteria into account:

- The adequacy of his professional profile to requirements for Board membership

The Board concluded that the profile of the CEO is adequate for the performance of the responsibilities and powers entrusted to him, emphasizing his key role in achieving the Company's Strategic Plan goals published in November 2017.

- Prior performance while in office

For this purpose the Board examined the annual and triennial evaluations of his performance as CEO for the period 2015-2017, which contained a very satisfactory evaluation of his management.

The Board also examined the separate evaluations of his performance as Chairman of the Board that the Board issued every year during this period. The performance evaluation is done by assessing a large number of variables contained in the Board's annual evaluation procedure and specific evaluation of the following: exercise of the chairmanship in a manner sufficiently differentiated from that of chief executive; ability to ensure that the Board effectively performs its functions and duties in all matters with adequate information; active promotion of Director participation, analysis, and discussion in order to make well-reasoned decisions; and improvement of relations with shareholders and investors and information and transparency policy. The aforementioned evaluations were very satisfactory for each of the three years of this period.

Additionally, both the Nomination, Compensation and Corporate Governance Committee and the Board took into account the potential concentration of power in the person of CEO/Chairman when he also holds the position of chief executive, concluding that it is in the best interests of the Company to maintain the status quo, mainly for the following reasons: (i) preservation of his ability to exercise the necessary internal and external leadership, consistent with best practices in the markets where the Company principally operates; (ii) Mr Abril-Martorell's individual characteristics due to his experience and specific circumstances; and (iii) the existence of checks and balances at the

Company which sufficiently limit such risk of excessive concentration of power, which are:

- A Lead Independent Director, who is also Vice-Chairman, with broad powers to preserve proper independence of the Board of Directors in the performance of its duties;
 - Two Executive Directors who have been invested with broad management powers for the Company business units of which they are in charge;
 - A Board composition with a majority of Independent Directors, a composition which is repeated in the Audit and Compliance Committee and the Nomination, Compensation and Corporate Governance Committee, whose chairmen are also Independent Directors.
- As for the dedication required for performance of his duties, the Board verified that other professional duties, which are included in his profile, allow Mr. Abril-Martorell adequate effective dedication to the Board of Directors and the Executive Committee of which he is also chairman.

Therefore, the Board resolved to submit the following proposal to the Meeting:

- *Re-elect Mr Fernando Abril-Martorell Hernandez as Director for a term of three years as provided in the Bylaws and pursuant to a proposal of the Board of Directors.*

2.2.-Appointment of Ms. Cristina Ruiz Ortega as Executive Director

On December 21 2017 the Board of Directors, following a favourable report from the Nomination, Compensation and Corporate Governance Committee, agreed to appoint Ms. Cristina Ruiz Ortega as Executive Director through co-optation.

The appointment of Ms. Ruiz occurs in the context of corporate reorganization under the 2018-2020 Strategic Plan which includes the Subsidiarisation of the entire Indra IT business into an independent company with Ms. Ruiz in charge, and which is submitted for approval at the Meeting under Item Five of the Agenda.

Pursuant to the provisions of Article 244 of the LSC, which provides that Directors appointed by co-optation will hold office until the date of the next Annual Shareholders' Meeting, nomination of Ms. Ruiz is submitted to the Meeting for appointment as Executive Director for a period of three years under the Bylaws.

For issuance of this report the Board considered the following:

- The adequacy of her professional profile to requirements for Board membership

The Board concluded that Ms. Ruiz' professional profile is the appropriate for leading the IT business both due to her training and career accomplishments as well as proven dedication to the post, and her ability to add value in performing her duties.

- Prior performance

For this purpose the Board took into account her annual and multiannual evaluations since joining Indra in 2011 both for achievement of objectives and her leadership and management.

As for the dedication required for performance of her duties, the Board verified that Ms. Ruiz' other professional commitments, included in her profile, allow sufficient dedication to the duties inherent in the post of Executive Director.

Therefore, the Board resolved to submit the following proposal to the Meeting:

- *Appoint Ms. Cristina Ruiz Ortega as Executive Director for a term of three years as provided in the Bylaws and pursuant to a proposal of the Board of Directors.*

2.3. - Appointment of Mr Ignacio Mataix Entero as Executive Director

On January 26 2018 the Board of Directors, following a favourable report from the Nomination, Compensation and Corporate Governance Committee, agreed to appoint Mr Ignacio Mataix as Executive Director by co-optation. Mr Mataix covered the vacancy created on the Board of Directors with the resignation of Proprietary Director Juan March de la Lastra.

After his appointment as Director, Mr. Mataix took over leadership of the T&D business, which consists of Defence and Security, Transport and Air Traffic Control.

Pursuant to the provisions of Article 244 of the LSC, which provides that Directors appointed by co-optation will hold office until the date of the next Annual Shareholders' Meeting, nomination of Mr Mataix is submitted to the Meeting for appointment as Executive Director for a period of three years under the Bylaws.

For issuance of this report the Board considered the following:

- The adequacy of his professional profile to requirements for Board membership

For its analysis of the suitability of Mr Mataix, the Board received a detailed report prepared by a well-respected external consultant regarding requirements for the post and Mr Mataix' suitability for it.

Mr Mataix has recognized professional ability, experience in sectors similar to those of the T&D business which he now heads, qualifications, training, and business availability.

The Board therefore considers that his skills match to the professional profiles defined by the Board.

As for the dedication required for performance of his duties, the Board verified that Mr Mataix' other professional commitments, included in his profile, allow sufficient dedication to the duties inherent in the post of Executive Director.

Therefore, the Board resolved to submit the following proposal to the Meeting:

Appoint Mr Ignacio Mataix Entero as Executive Director for a term of three years as provided in the Bylaws and pursuant to a proposal of the Board of Directors.

3. Appointment and re-election of Independent Directors

At this Meeting the mandates of Independent Directors Mr Daniel García-Pita and Mr Enrique de Leyva will expire.

The Nomination, Compensation and Corporate Governance Committee has decided submit to the Meeting a proposal for the re-election of Mr Enrique de Leyva as an Independent Director.

In 2016, the Nomination, Compensation and Corporate Governance Committee proposed and the Board of Directors approved a rule whereby those Independent Directors who have already served for three terms not be proposed for re-election. As a result, the re-election of Mr García-Pita is not proposed.

The Nomination, Compensation and Corporate Governance Committee hired a well respected external consultant to search for a candidate to replace Mr García-Pita, and after conducting an analysis of the profiles presented to it, selected Mr Ignacio Martín San Vicente, whose knowledge, skills and experience match the requirements in the Selection Policy for Directors who serve on the Board.

As mentioned above, the proposals for appointment and re-election of Directors submitted to the Meeting will not affect the level of independence of the committees, where Independent Directors will continue to constitute a majority of their membership and occupy all of the chairmanships. Accordingly, the Board resolved, subject to his election at the Meeting, to appoint Mr Martín San Vicente as a member of the Nomination, Compensation and Corporate Governance Committee to replace Mr García-Pita.

As regards whether the knowledge of Messrs. Martín San Vincente and de Leyva fit the professional profiles defined by the Board, the following characteristics should be taken into consideration:

- Mr Martín San Vicente has broad international experience, having occupied various top level executive positions. He has achieved deep knowledge of the industrial sector and of production environments.
- Mr de Leyva has broad international experience in management, economics, and in the sectors and geographic markets most important to the Company, as well as matters of economic and financial control.

As for the dedication required for performance of their duties, the Board verified that Mr Martín San Vicente's and Mr. de Leyva's other professional commitments, included in their profiles, allow sufficient dedication to the Board of Directors and the committees of which they are or will be members.

Also, with regard to Mr. de Leyva, the Committee and the Board have valued his performance very positively over the past three years and his high level of attendance at meetings of the Board and the committees of which is a member.

Finally, with regard to maintenance of the requirements depending on the category of Director, the Board, with the previous favourable report from the Nomination, Compensation and Corporate Governance Committee, verified that there are no personal or professional circumstances that would change the condition of Mr de Leyva as an Independent Director. Mr de Leyva has served 3 years.

Based on the above, the Board favourable informs the following proposals that the Nomination, Compensation and Corporate Governance Committee resolved to bring before the Meeting:

- *Elect Mr Ignacio Martín San Vicente as Independent Director for a term of 3 years under the Bylaws and upon proposal by the Nomination, Compensation and Corporate Governance Committee.*
- *Re-elect Mr Enrique De Leyva Pérez as Independent Director for a term of 3 years under the Bylaws and upon proposal by the Nomination, Compensation and Corporate Governance Committee.*

Finally, the Board of Directors and the Nomination, Compensation and Corporate Governance Committee have taken into account gender diversity among Board members. The composition resulting from the above proposals maintains the number of women on the Board of Directors of Indra at three, being one of them an Executive Director. Women represent 23% of all Board members.

The professional profiles of the Directors whose appointment and re-election is proposed, including their identity, curriculum and Director Category, will be made available to Shareholders on the corporate website upon call of the Meeting.

4. Composition by class of Directors should the above be approved at the Annual Shareholders Meeting

COMPOSITION OF THE BOARD OF DIRECTORS	
External Directors	10
Independent Directors	7
Proprietary Directors	3
Shareholder SEPI	2
Shareholder CFA	1
Executive Directors	3
CEO	1
Vice President Director for IT	1
Vice President Director for T&D	1
TOTAL	13

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