



NOMINATION, COMPENSATION AND CORPORATE
GOVERNANCE COMMITTEE

ACTIVITIES REPORT

2017

February 2018

INTRODUCTION

In accordance with the provisions of Article 16.8 of the Rules of the Board of Directors ("Board Rules"), the present document contains the Activities Report for the Nomination, Compensation and Corporate Governance (hereinafter the "Committee") for fiscal 2017.

COMPOSITION AND PROFILE OF MEMBERS

In accordance with the Board Rules and the Bylaws, the Committee is composed exclusively of external Directors whose membership is to be between three and six. The current composition of the Committee is as follows:

Chairman

Mr. ALBERTO TEROL
(Independent Director)

Vocales

Mr. DANIEL GARCÍA-PITA
(Independent Director)

Ms. SILVIA IRANZO
(Independent Director)

Mr. SANTOS MARTÍNEZ-CONDE
(Proprietary Director named upon proposal by Corporación Financiera Alba, S.A.)

Mr. ADOLFO MENÉNDEZ
(Proprietary Director named upon proposal by Sociedad Estatal de Participaciones Industriales – SEPI --)

The Chairman of the Committee must be an Independent Director and, in accordance with Board Rules, either the Secretary or Vice Secretary of the Board of Directors acts as the Secretary of the Committee.

As can be seen from the list above, of the five outside Directors who make up the Committee, three are Independent.

A brief professional profile of each of the members of the Committee follows:

Alberto Terol

Born in 1955. Degree in Economics and Business Administration from the Universidad Complutense de Madrid. He began his career at Arthur Andersen where he was made partner and headed various projects. He was a member of the Board of Partners of Andersen Worldwide. He has been Managing Partner of Garrigues-Andersen. He filled the post of head of Europe for Andersen for a year and a half, and was a member of the Andersen Worldwide Executive Committee. He was also a board member of the global Legal and Tax practice for Arthur Anderson. He was a member of the Worldwide Executive Committee for Deloitte, where he was head of Latin America and later of Europe, Middle East and Africa. Additionally, Mr. Terol served as managing director of worldwide Legal and Tax practice. He has also been International Senior Advisor for BNP Paribas.

Currently he is Chairman and CEO of several family businesses, independent director at International Airlines Group, S.A., where he is a member of the Audit Committee and the Compensation Committee, member of the Board of Directors and Chairman of the Audit Committee at Senvion, S.A., Chairman of the Supervisory Board at Senvion GmbH, member of the board at Broseta Abogados, member of the Board of Directors and Chairman of the Audit Committee at Varma, S.A. and a member of the Board of Directors at Schindler España, S.A.

Daniel García-Pita

Born in 1947. Lawyer. He has spent his entire career at the law firm of J & A Garrigues, which he joined in 1969 and where he was a Managing Partner. He has served as Professor of Business Law at the Universidad Central de Madrid and as a member of the Governing Board of the Madrid Bar Association. Legal Counsel to numerous organisations and member of the Board of important listed companies, Indra among them, where he was non-member Secretary until 2009. He was Chairman of the Board of Andbank from 2015 to 2017. Currently he is a director at Aegón España, S.A. and DTS, Distribuidora de Televisión Digital.

Silvia Iranzo

Born in 1956. Degree in Economics from the Universidad Autónoma de Madrid and graduate of the IESE Business School (Executive Management Program for Directors at the Spanish Central Bank). Member of the Cuerpo Superior de Técnicos Comerciales y Economistas del Estado within the Spanish Department of Commerce and member of the Grupo Directivo at the Spanish Central Bank.

Earlier, she was Spanish ambassador to Belgium from 2010 to 2012, Secretary of State for Commerce from 2008 to 2010, and head of Country Risk in the Department of International Affairs for the Spanish Central Bank from 2005 to 2008. She also was chairman of the board of ICEX (Instituto Español de Comercio Exterior) from 2008 to 2010, chairman of the board of Invest in Spain from 2008 to 2010, member of the board of CESCE (Compañía Española de Seguro de Crédito a la Exportación) from 1991 to 1994 and from 2005 to 2008.

Additionally, she was a member of the Board of Directors of Tecnocom from 2016 to 2017; of Telefónica Internacional from 1992 to 1994; of Naviera Mallorquina from 1992 to 1994; of Cabeltel from 1991 to 1992; of Banco Exterior UK from 1990 to 1992; and Eria from 1990 to 1992. Recipient of the Gran Cruz de la Orden del Mérito Civil.

Professor of Economics at CUNEF (Colegio Universitario de Estudios Financieros) and at IEB (Instituto de Estudios Bursátiles) in the Department of Business Administration and the Masters Program at Bolsa. She is a member of the Board of Directors of Instituto de Consejeros y Administradores (IC-A) as well as a member of the editorial board at the magazine *Economistas*.

Santos Martínez-Conde

Born in Santander in 1955. Civil engineer with a Master's degree in Administration and Business Management from ICADE and a diploma in Nuclear Technology from ICAI. He is currently the CEO of Corporación Financiera Alba, S.A., serves as a director on the boards of Banca March, S.A., Acerinox, S.A., and Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.

He has worked for a variety of engineering and financial companies, including Sener, Técnica Naval e Industrial, S.A. (1979-1980), Técnicas Reunidas, S.A. (1980-1987), Bestinver, S.A. (1987-1990), Corporación Borealis, S.A. (1990-1994) and Banco Urquijo, S.A. (1994-1998). He has been a director of many companies, some listed others not, pertaining to a wide variety of sectors.

Adolfo Menéndez

Born in 1958. Law degree from the Autonomous University of Madrid and state attorney on leave of absence. He is currently of Counsel to the Ontier law firm in the field of Public Law.

He began his career as a state attorney, holding various positions in the Finance Ministry and Prime Minister's Office before being appointed Head of Legal Affairs at the Ministry of Health and Consumer Affairs. In 1988 he joined the Ernst & Young law firm as a partner in the Tax Department. Undersecretary in the Ministry of Defence (1996-2000) and Undersecretary in the Ministry of Development (2000-2004). In 2004 he returned to private practice as Head of Real Estate, Urban Planning and Environment Law at Uría Menéndez, before transferring to the Public Law and Litigation Department in 2006.

He was Partner and Emeritus Partner of Uría Menéndez until 2016. He has served on the boards of directors at Tabacalera, Telefónica, RENFE, Construcciones Aeronáuticas and GIF and was Chairman of TEDAE between 2014 and 2017.

As a recognized expert in public law he has also pursued an intense academic career. He currently teaches Public Economic Law at the IE Law School, holds the José María Cervello Chair in Professional Ethics, and is Chairman of the "Public Law Regulations Forum." He is also General Counsel for the Spanish Association of Foundations and the Princess of Asturias Foundation

RESPONSIBILITIES AND AUTHORITY

In accordance with Article 31 bis of the Bylaws, rules regarding the responsibilities and authority of the Committee are contained in the Board Rules, subject always to applicable law.

Article 19 of the Board Rules assigns the Committee the following duties, in addition to those provided for by law:

- a) Annually verify compliance with the selection policy for Directors approved by the Board of Directors.
- b) Annually verify that each Director maintains the status under which he or she was elected, and affirming such in the Annual Corporate Governance Report.
- c) Verify the content of the Annual Corporate Governance Report.
- d) Ensure that non-Executive Directors have sufficient availability in order to properly carry out their duties.
- e) Issue a report to the Board prior to its annual evaluation of the Board's performance, and another report for the annual assessment of the CEO.
- f) Propose to the Board of Directors the contractual terms for senior management.
- g) Confirm compliance with the compensation policy established for the Company.
- h) Periodically review the compensation policy applicable to Directors and senior managers, including stock delivery schemes and the ways they are applied, so as to guarantee that individual compensation is proportional to compensation paid to other Directors and senior managers of the Company.
- i) Safeguard that there are no potential conflicts of interest that might damage the independence of outside advice given to the Committee.
- j) Verify information regarding compensation of Directors and senior managers contained in the various corporate documents, including the Annual Report on Director Compensation.
- k) Report to the Board of Directors in advance regarding transactions with related parties.
- l) Perform a periodic analysis of Company policies, rules, procedures and practices in Corporate Governance and Social Corporate Responsibility, as well as its degree of compliance with national and international rules, recommendations and best practices in these areas.
- m) Propose to the Board any changes it deems appropriate to the aforesaid policies, rules, practices and procedures in Corporate Governance and Social Corporate Responsibility, indicating the reasons for such changes.
- n) Report to the Board, prior to its approval, on any information made public by the Company relating to matters within its area of responsibility.

ACTIVITIES DURING FISCAL 2017

The Committee held eight meetings during fiscal 2017, seven of them regularly scheduled and one extraordinary. The average personal attendance at Committee meetings was 94.44% overall and 90% in the case of Independent Directors.

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 2017 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 2017 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

- **Re-election and Nomination of Directors at the Annual Shareholders' Meeting**

- Re-election of Directors: The Committee proposed to the Board the re-election of Independent Director Mr. Ignacio Santillana and delivered a favourable report regarding the proposed re-election of Proprietary Directors Mr. Adolfo Menéndez and Mr. Juan Carlos Aparicio, representing the equity interests of SEPI, and of the Executive Director Mr. Javier de Andrés, whose terms ended in 2017.

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) adequacy of their knowledge, aptitude and experience to the professional profiles as defined by the Board.

- Nomination of Directors: With the goal of replacing Ms Aguilera and Ms Sugrañes, whose mandates ended due to term limits for Independent Directors, the Committee engaged the consulting firm Spencer Stuart for the candidate search, eventually proposing to the Board the nomination of Ms Silvia Irazo and Ms María Rotondo as Independent Directors replacing Ms Isabel Aguilera and Ms Rosa Sugrañes.

The Committee verified that the candidates meet all the legal requisites for consideration as Independent Directors and that their work commitments allow them sufficient dedication to the post.

- **Resignation and Nomination of Executive Directors**

Within the framework of Company reorganization plan contained in the 2018-2020 Strategic Plan, which consists in the incorporation of all IT businesses into a new fully owned subsidiary of Indra, the Committee analyzed the proposed modification of the management structure of the Company by means of elimination of the post of COO.

The result of said analysis was a favourable report to the Board by the Committee regarding the following proposals, which were approved by the Board:

- a) Name Ms Cristina Ruiz as an Executive Director through the co-option process.
- b) Revoke the powers granted by the Board of Directors to Mr Javier de Andrés González at its meeting this past 25 May 2017.
- c) Accept the resignation of Mr Javier de Andrés González from the Board of Directors after his powers were revoked.

- **Designation of Lead Independent Director**

The Committee proposed to the Board appointment of Mr. Terol as new Lead Independent Director in place of Mr. García-Pita.

- **Designation of members of the Board Committees**

The Committee brought the following proposals for changes to membership on Board Committees, taking into account changes in Board membership:

- a) Audit and Compliance Committee: appoint Ms María Rotondo as a member in place of Mr Alberto Terol.
- b) Nomination, Compensation and Corporate Governance Committee: appoint Ms Silvia Irazo and Mr Alberto Terol in place of Ms Isabel Aguilera and Ms Rosa Sugrañes.

c) Executive Committee: Removal of Mr De Andrés as a consequence of his resignation as a Director, leaving the Committee with seven members instead of eight.

- **Change in Chairmanship of the Nomination, Compensation and Corporate Governance Committee**

The Committee resolved to appoint Mr Alberto Terol as its chair in place of Mr Daniel García-Pita.

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

Compensation Policy for Directors

In accordance with the provisions of Article 529.19 of the Ley de Sociedades de Capital ("Spanish Corporations Act" or "LSC") which provides that the Compensation Policy for Directors be approved at a General Shareholders meeting at least once every three years, the Committee reviewed the Compensation Policy for Directors for fiscal 2018, 2019 and 2020, and proposed approval of it at the Annual Shareholders Meeting in 2017. It issued a supporting report concluding that the Compensation Policy was consistent with guidelines, recommendations and best practices and followed criteria for good governance and transparency.

For the drafting of the Compensation Policy and the above-mentioned report, the Committee was advised by independent experts of recognized standing in this area.

Evaluation of the CEO

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

Evaluation of the Board and its Committees

In accordance with the provisions of Recommendation 36 of the Code of Good Governance for Listed Companies, the Committee analyzed the procedure applied in evaluating the performance of the Board for fiscal 2016, the quality of its work and the performance of its members and delivered the relevant report to the Board.

Composition, Compensation, and Duties of Senior Management

- **Management evaluation and proposal for 2016 Variable Annual Compensation**

The Committee made a proposal to the Board for approval of the annual variable compensation in 2016 for all Senior Management (including Executive Directors). The Committee analyzed the degree of attainment of goals, performance, and management for each senior manager in his or her area of responsibility during fiscal 2016.

- **Objectives for Annual Variable Compensation 2017**

The Committee sent approval to the Board for a new annual variable compensation model for 2017, and proposed management objectives for the year, analyzing individual quantitative and qualitative objectives for each Senior Manager and Executive Director.

- **New Compensation Plan for Senior Management 2018-2020**

The Committee considered whether it would be appropriate to revise the compensation plan for Senior Management – including Executive Directors – for the new period 2018-2020 and to that end reviewed various proposals in collaboration with specialized advisors. After this analysis, the Committee issued a favourable report to initiating the review process and proposing engagement of Willis Towers Watson.

- **Proposals regarding Key Company Senior Management Personnel**

The Committee analyzed and made a favourable report regarding changes and appointment of new managers in the areas of Defence and Security, Transportation, and Human Resources.

- **Contractual Framework for Senior Management**

The Committee gave a favourable report to the Board regarding approval of (i) modifications of the employment/business contracts for Senior Managers, (ii) fringe benefits as part of their compensation package, and (iii) 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.

Additionally, the Committee reviewed the applicable criteria, resulting amounts and specific conditions of termination for the contracts with the COO and certain general managers upon termination of their employment relationships with the Company and issued a favourable report for approval by the Board.

- Monitoring of the number of shares corresponding to **Annual Variable Compensation for 2017** and **Medium Term Incentives for 2015-2017**.

Purchase of Shares by Directors

The Committee was informed in each occurrence 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 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 in the 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, to be included in 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 appointment and re-election 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:

- Analysis of the effectiveness and level of compliance with the Company's Corporate Governance rules and procedures during the past fiscal year.
- 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.