
**NOMINATION, COMPENSATION AND
CORPORATE GOVERNANCE COMMITTEE**
Activities Report 2018

January, 2019

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 year 2018.

COMPOSITION AND PROFILE OF MEMBERS

In accordance with the Board Rules and the Bylaws, the Committee is composed exclusively of non-Executive Directors, with a minimum of three and a maximum of six membership. The composition of the Committee during 2018 was as follows:

Chairman

Mr. Alberto Terol

(Independent Director)

Members

Ms. Silvia Iranzo

(Independent Director)

Mr. Ignacio Martín San Vicente

(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 its composition, all of the members of the Committee are external and three (including the Chairman) are Independent.

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

Alberto Terol

Born in 1955, he holds a degree in Economics and Business from the Complutense University of Madrid. He began his career at Arthur Andersen, where he was a partner and handled various executive activities. He was a member of the Arthur Andersen Worldwide Advisory Council. He acted as managing partner at the Garrigues-Andersen firm, and for a year and a half he served as Andersen's European Chairman and was a member of the Worldwide Executive Committee. He was also a member of Deloitte's Worldwide Executive Committee and served as its chairman for Latin America, and then as its chairman for Europe, the Middle East and Africa. He was also managing partner of the worldwide tax and legal area and International Senior Advisor for BNP Paribas.

He is currently the President & CEO of several family businesses, independent director of the board and member of the Audit Committee and the Remuneration Committee of International Airlines Group, S.A., member of the Board of Directors and Chairman of the Audit Committee of Senvion S.A., Chairman of the Supervisory Board of Senvion GmbH, member of the Board of Directors of Broseta Abogados, member of the Board of Directors and Chairman of the Audit Committee of Varma, S.A. and member of the Board of Directors of Schindler España, S.A..

Silvia Iranzo

Degree in Economics from the Universidad Autónoma de Madrid, PhD in Economics and Business from UNED 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, 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.

Also has been Chairman of the Board of ICEX (Spanish Institute of Foreign Trade) from 2008 to 2010, Chairman of the Board of Invest in Spain from 2008 to 2010, member of the Board of Directors of CESCE (Spanish Export Credit Insurance Company) from 1991 to 1994 and from 2005 to 2008.

Additionally, she was 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 Cabitel 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 member of the Board of Directors of Instituto de Crédito Oficial (ICO), Instituto de Consejeros y Administradores (IC-A) as well as a member of the editorial board at the magazine *Economistas*.

Ignacio Martín San Vicente

Born in 1955. Is an Electric Industrial Engineer qualified by the University of Navarra.

He has developed his professional career at different companies, mainly of the industrial sector as GKN Automotive International, where he was General Director, member of the Global Executive Committee and Chief Executive Officer in the United States.

Mr. Martín was also the Deputy General Manager to the Chairman of Alcatel España. In 2001, he was appointed Executive Vice chairman of the GSB Group, where he led the merger with Corporación industrial Egaña, which was the origin of the company CIE Automotive, where he was Chief Executive Officer until 2012, when he joined Gamesa as Executive Chairman until it was merged with Siemens Wind Power in May 2017.

He is currently an Independent Director at Repsol, S.A, independent Director at Acerinox, S.A. and Director at Bankoa-Credit Agricole.

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., Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. and CIE Automotive, 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 Universidad Autónoma de 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. He was 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 *Foro de la Regulación Administrativista* ("Administrative Law 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 competence and power of the Committee are found within 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 Policy for Selection of Directors approved by the Board of Directors.
- b) Annually verify that each Director maintains the status under which he or she was elected, 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 Board Chairman.
- f) Propose to the Board of Directors the contractual terms for senior management.
- g) Confirm compliance with the compensation policy established by the Company.
- h) Periodically review the compensation policy applicable to Directors and senior managers, including stock remuneration 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 corporate documents, including the Annual Report on Director Compensation.
- k) Report to the Board of Directors in advance regarding related party transactions.
- l) Perform a periodic analysis of Company's policies, internal regulation, 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, internal regulation, 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 areas of responsibility.

ACTIVITIES DURING FISCAL 2018

The Committee held eleven meetings during fiscal year 2018, nine of them regularly scheduled and two extraordinary. The average personal attendance at Committee meetings was 96.36% overall and 96.06% in the case of Independent Directors. As it does every fiscal year, the Committee (i) drafted and approved its Annual Activities Report for the prior fiscal year and (ii) drafted an Action Plan for fiscal 2018 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 2018 the Committee has analyzed and has 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 the re-election of Independent Director Mr. Enrique de Leyva to the Annual Shareholders' Meeting and a favourable report regarding the proposed re-election of Executive Director Mr. Fernando Abril-Martorell was delivered, whose terms ended in 2018.

The Committee analysed: (i) compliance with the requirements demanded according to the category of Director; (ii) continued capacity for dedication; (iii) prior performance at the position; 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 Mr. García-Pita, whose mandate ended due to term limits for Independent Directors, the Committee engaged the consulting firm Egon Zehnder for the candidate search, eventually proposing to the Board the nomination of Mr. Ignacio Martín San Vicente as Independent Director replacing R. García-Pita. The Committee verified that the candidate meets all the legal requisites for consideration as Independent Director and that his professional commitments allow him sufficient dedication to the position.

The Committee also gave a favourable report regarding appointment of Ms. Cristina Ruiz Ortega and Mr. Ignacio Mataix Entero as Executive Directors, both appointed initially by the Board of Directors through its co-optation procedure.

➤ Nomination of the Executive Director

Within the framework of modifying the management structure of the Company, the Committee issued a favourable report to the Board regarding the proposed appointment of Mr. Ignacio Mataix as Executive Director through the co-option process to cover the vacancy arising from the resignation of Proprietary Director, Mr. Juan March, in January 2018. The Committee commissioned a report from the consulting firm Spencer Stuart regarding the professional profile of Mr. Mataix concerning his appointment as Executive Director as well as his compensation.

➤ Designation of Vice Chairman of the Board

The Committee delivered a favourable report to the Board of Directors regarding appointment of Mr. Terol as new Vice Chairman of the Board 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) Nomination, Compensation and Corporate Governance Committee: designate as a member Mr. Ignacio Martín San Vicente in place of Mr. Daniel García-Pita.
- b) Executive Committee: designate as a member Mr. Santos Martínez-Conde, to fill the vacancy left by the resignation of Mr. Juan March, and Mr. Luis Lada.

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 Company's Policy for Selection of Directors.

Compensation Policy for Directors

The Committee reviewed the current Compensation Policy for Directors and, after approval of the new management structure and the new compensation scheme for fiscal 2018, 2019 and 2020, concluded that an update of the Policy would be necessary. In accordance with the provisions of Article 529 novodecies of the *Ley de Sociedades de Capital* ("Spanish Corporations Act" or "LSC") the Committee reviewed the measures that should be adopted. These were approved at the Annual Shareholders Meeting in 2018, and the Committee 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.

Evaluation of the Chairman of the Board

The Committee made a proposal regarding the aspects to be taken into account for the evaluation of the Chairman as well as the weight to be given to each aspect, with the understanding that the performance of the Chairman 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 2017, 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

➤ Proposals related to the composition of Company Senior Management

The Committee analysed and issued a favourable report regarding the composition of the various executive committees created within the framework of the changes in Company management structure. The Committee reviewed and reported favourably on the staff who make up Senior Management of the Company and who, after restructuring, were included as members of the Management Committee.

The Committee reviewed the addition of new members to the Management Committee during the fiscal year.

➤ Evaluation of Management and Proposed Annual Variable Compensation 2017 and Medium Term Compensation 2015-2017

The Committee sent a proposal to the Board for Annual Variable Compensation 2017 and Medium Term Compensation 2015-2017 for each member of Senior Management (including Executive Directors). The Committee considered the degree of achievement of objectives, accomplishments and management outcomes for each senior manager's area of responsibility during the relevant time frame.

➤ Variable Compensation 2018-2020 and Setting of Goals

Annual Variable Compensation 2018

The Committee submitted to the Board approval of a new Annual Variable Compensation model for 2018 and its proposal for goals for each member of Senior Management (including Executive Directors) for the fiscal year, analysing the conditions for receipt of Annual Variable Compensation, various levels for objectives (Company objectives; Business Unit or Market objectives; and individual objectives), the minimum achievement percentages and the form of payment (70% in cash and 30% in shares).

The Committee was informed about application of the model to the rest of the Company professionals with rights to Annual Variable Compensation.

Medium Term Variable Compensation 2018-2020

The Committee submitted to the Board approval of a new Medium Term Variable Compensation and its proposal for goals concertation for the 2018-2020 triennium (mix of global and individual objectives with weighting of each one objective values and procedure for calculating the number of shares to be delivered).

➤ Contractual Framework for Senior Management: The Committee gave a favourable report to the Board regarding the following proposals:

- Approval of the contract terms for the new Executive Directors, Ms. Cristina Ruiz and Mr. Ignacio Mataix and the change in duration of the non-compete clause for the Chairman.
- Approval of modifications of compensation for certain Senior Managers as a consequence of changes in their responsibilities under the new organizational structure approved by the Board.
- The Committee reviewed contractual relationships between certain ex-managers as well as the conditions of ex-Senior Managers contract resolution.

Purchase of Shares by Directors

The Committee was informed upon 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 analysed information delivered by the Directors regarding their equity participation and regarding duties performed in other companies as well as work done as a freelance or as an external employer which might present actual competition with Indra's corporate purpose or represent a conflict of interest, to include Annual Financial Statements.

➤ Related Party Transactions

The Committee analysed the following matters and delivered its recommendation regarding them:

- Information regarding related party transactions with significant Shareholders and Directors to be included in the semi-annual financial report made to the *Comisión*

Nacional del Mercado de Valores ("CNMV") as well as Annual Financial Statements and the Annual Report on Corporate Governance.

- The proposal for authorization of generic types of financial or business related party transactions with significant Shareholders, as long as they are routine, in the ordinary course of Company's business and under market conditions.
- Authorization of potential transactions with related parties transactions to Directors within the limits described in the Board Rules.

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 has 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 Annual Shareholders 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.
- Policy Modification: the Committee submitted a proposal to the Board modifying the Policy for Selection of Directors to (i) expressly incorporate the diversity criteria mentioned specifically in Article 540 of the LSC and the new Annual Report on Corporate Governance model and (ii) incorporate within it the turnover criterion for Independent Directors approved by the Board and which has already been applied in the years 2017 and 2018.

- 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.
- Criteria to follow in the reporting of non-financial information.
- Proposal of the Annual Report on Corporate Social Responsibility which forms part of the Management Report in accordance with the provisions of *Real Decreto-Ley 18/2017* (Spanish non-financial information and diversity Act which partially amending Spanish Corporations Act).
- Approval of the Annual Report regarding Related Transactions, which was made public by the Company upon call of the Annual Shareholders Meeting.

Other Matters

Review of organizational models

- T&D Organization: the Committee reviewed the proposal for the new organization for the Defence Business.

- Geographic Organization: the Committee reviewed the new organizational model proposed for Latin America and Europe, submitting to the Board the proposal to abolish the position of Managing Director for America.

Minsait Incentive Model

The Committee reviewed the IT incentive model and the Business Model Transformation Plan since, although it is not necessarily within the purview of the Committee for want of reference to Senior Management, it is a significant compensation plan and of application to a large number of people throughout the Company.