
**NOMINATION, COMPENSATION AND
CORPORATE GOVERNANCE COMMITTEE**
Activities Report 2015

January, 2016

The Committee met 12 times during fiscal 2015. This meant, as a function of the time necessary to prepare for meetings and attendance at the meetings themselves, an average commitment of approximately 40 hours annually for each member.

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 2015 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 2015 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

➤ **Appointment of the new Chairman of the Board:**

The Committee analyzed the written proposal it received from SEPI and its two representatives on the Board of Directors in which they proposed Mr. Fernando Abril-Mortorell as new Director and Chairman of the Board, which proposal was supported by Shareholder Telefónica and unopposed by the other significant Shareholder, Corporación Financiera Alba.

The Committee also relied upon two reports from the consulting firm Spencer Stuart, drafted at the request of the Company, in order to help with its analysis of the appropriateness of appointing Mr. Abril-Martorell to the post.

After said analysis, the Committee issued a report to the Board favouring the following resolutions, which subsequently passed:

- (i) Fill the existing vacancy on the Board of Directors resulting from the resignation of Director Casa Grande de Cartagena, S.L.U. by means of the appointment of Executive Director Mr. Fernando Abril-Martorell Hernández through co-optation.
- (ii) Revoke the powers delegated by the Board of Directors to Mr. Javier Monzón de Cáceres at its meeting held 26 June 2014.
- (iii) Accept the resignation of Mr. Javier Monzón de Cáceres as Chairman and member of the Board of Directors as requested by the Board of Directors after the revocation of his delegated powers.

- (iv) Designate Mr. Fernando Abril-Martorell Hernández as Chairman of the Board of Directors.
- (v) Delegate to the Chairman, Mr. Fernando Abril-Martorell Hernández, all of the powers of the Board of Directors other than those which may not be delegated by applicable law.

➤ Appointment of Independent Director

The Committee analyzed various candidacies in order to fill the vacancy which arose on the Board of Directors after the resignation of Independent Director Ms. De Oriol during the month of April. After said analysis, it brought a proposal to the Board of Directors that Mr. Enrique De Leyva be appointed as an Independent Director through co-optation, as the candidate who best fit the financial and auditing profile required in order to fill the post. The Committee confirmed that the candidate met the legal requirements in order to be considered an Independent Director and that his other commitments were such that he would be able to dedicate the requisite attention to the post.

➤ Determination of the number of Directors, reelection and appointment of Directors at the Annual Shareholders' Meeting:

The Committee brought the following resolutions to the Board to be submitted to the Annual Shareholders' Meeting (hereinafter "Meeting"):

- Fix the number of members of the Board of Directors at 13 by not filling the vacancy arising from the resignation in January of the prior Chairman, Mr. Monzón. The Board considered that this proposal would permit the Company to have a Board with a size appropriate for the needs of the Company and which would comply with legal requirements and international standards regarding Board independence.
- Reelection of Mr. Daniel García-Pita (Independent Vice Chair and Coordinating Director) and the appointment of Mr. Enrique De Leyva as Independent Directors. The Committee issued a report favourable to the appointment of Mr. Fernando Abril-Martorell as Executive Director.

In drafting the above referenced proposals and report, the Committee took into consideration (i) the degree to which the Director candidates meet the professional profiles as defined by the Board; (ii) their capacity to deliver the dedication required for

carrying out the duties of the post; (iii) prior performance at the post and (iv) continued fulfillment of the requirements required by the designated class of Director.

➤ Designation of members of the Board Committees:

The Committee brought the following proposals for changes to membership on Board committees, taking into account the elimination of the Executive Committee in December, 2014, mandatory rotation of the Chairmanship of the Audit and Compliance Committee for 2015 as well as changes which took place in its membership:

- a) Audit and Compliance Committee: substitution of Mr. Alberto Terol as chairman of the Committee with Director Mr. Santillana, and the appointment of Mr. Enrique de Leyva as member, replacing Ms. Aguilera.
- b) Nomination, Compensation and Corporate Governance Committee: nomination as member Ms. Isabel Aguilera and Mr. Santos Martínez-Conde to replace Mr. Enrique de Leyva and Mr. Juan March, respectively.
- c) Strategy Committee: appointment of Mr. Fernando Abril-Martorell as Chairman to replace Mr. Monzón and appointment of Mr. Enrique de Leyva as a new member.

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

Appointment of a New Secretary of the Board

The Committee studied the appropriateness of replacing the prior Secretary of the Board of Directors, Mr. Pedro Ramón y Cajal, as a result of the change in the Executive Chairmanship. Therefore, in accordance with the provisions of Article 12.1 of the Board Rules, the Committee issued a report favouring the appointment of Mr. José Antonio Escalona as non-member Secretary and Special Advisor to the Board, a person who meets all of the qualifications cited in Article 12.6 of the Board Rules.

Compensation for the Board of Directors

Given the Company results from 2014, the Committee reconsidered compensation levels for Directors arising from their membership on administrative bodies, and issued a report to the Board favouring a resolution to reduce said compensation by 20% effective January 2015.

Compensation Policy for Directors

The Committee reviewed the new compensation policy which, subject to the interim legislation contained in the *Ley de Sociedades de Capital* ("Spanish Corporations Act" or "LSC"), was proposed to be submitted to the Meeting separate from the Report on Director Compensation for the following reasons:

- (i) Relevance of the changes proposed in the current compensation scheme for Executive Directors and the rest of Senior Management as described below; and
- (ii) Best practices in corporate governance and transparency would be to allow the Shareholders to vote separately on the Compensation Policy and the Report on Compensation.

The Committee issued a favourable report regarding said Policy and its submission to the Meeting, drafting a report as required by Article 529 *novodecies* of the LSC, and which report was made available to the Shareholders upon call of the Meeting.

Composition, Compensation, and Duties of Senior Management

➤ Contractual framework for the new Executive Chairman

The Committee reviewed and reported favourably on the contract for delivery of executive services and Non-Compete Agreement to be signed by Mr. Abril-Martorell, which contained identical provisions to those contained in the contract of the prior Chairman except for (i) the inclusion of guaranteed severance in the amount of one year's compensation until the time that such an amount has accumulated in his Early Retirement and Long Term Savings Account and (ii) an overall reduction in compensation in the amount of 22.5% upon request of Mr. Abril-Martorell himself. Said contract was drafted with the advice of the law firm Uría Menéndez.

➤ Management evaluation and proposal for 2014 Variable Annual Compensation and delivery of shares in 2015

The Committee made a proposal to the Board of Directors for variable compensation amounts for each of the members of Senior Management (including Executive Directors) for fiscal 2014. The Committee analyzed the degree to which objectives were met as well as performance and management of each senior manager in his or her area of competence during 2014, and placed special emphasis on 2014 results. The proposal, which was approved by the Board, included a quite significant reduction in variable compensation for senior managers. Executive Directors received none whatsoever.

➤ Application in 2014 of the maximum compensation limit approved at the Annual Shareholders' Meeting

The Committee took note of information provided to it and reviewed the proper application in 2014 of the maximum allowed compensation for the Board as approved at the Meeting in 2013 and delivered its analysis to the Board.

➤ New compensation scheme for Senior Management and proposals for the Annual Shareholders' Meeting

The Committee reviewed and favourably reported on the proposal for modification of the current compensation scheme for Senior Management in order to harmonize it with international standards and with the recommendations of the new Good Governance Code for Listed Companies and consistent with the following principles:

- Defer payment of a material portion of variable components and make those deferred payments in the form of stock
- Incorporate a clawback provision into senior management contracts
- Increase the amount represented by shares in compensation, up to 50% of the total
- Eliminate the current plan of delivering shares as a separate compensation item
- Establish a mandatory policy of retention of shares so long as there is a contractual relationship with the Company

Said proposal was drafted with the advice of the consulting firm Towers Watson.

The Committee made a proposal to the Board consistent with the authorization issued at the Annual Shareholders' Meeting that it deliver the number of shares necessary to comply with the requirements of the Medium Term Compensation and Annual Variable Compensation plans.

➤ Medium Term Incentives for 2014-2016:

The Committee brought a proposal to the Board to cancel Medium Term Incentives for 2014-2016, applying criteria similar to those applied by the Committee and the Board in evaluating Annual Variable Compensation for 2014. This cancelation was subject to the condition that the new compensation scheme included in the Compensation Policy for Directors be approved at the Meeting, which it subsequently was.

➤ Annual Variable Compensation 2015:

The Committee issued a report favouring a proposal approving the objectives for Annual Variable Compensation in 2015 for all Senior Management, analyzing individual quantitative and qualitative management objectives and fixing scores for exemplary performance in order to determine the degree of achievement. The Committee also proposed to the Board that it incorporate in all instances a qualitative element related to leadership and personnel management, weighted as 10% of the total.

➤ Medium Term Compensation for 2015-2017:

The Committee analyzed the common objectives and metrics for all Senior Managers as well as individual objectives with the advice of Towers Watson. The Committee issued a favourable report regarding said objectives and metrics and proposed that in evaluating the achievement of objectives that extraordinary circumstances that might influence their outcome should be taken into account.

➤ Appointment of new Senior Managers

The Committee made a favourable report regarding the proposed appointment of Mr. Antonio Mora Morando as new General Director for Management, Organizational and Process Control and of Mr. Javier Lázaro Rodríguez as the new CFO of the Company.

The Committee reviewed the profiles and contractual provisions proposed for each of them and issued a favourable report to the Board for each.

The Committee reviewed the applicable criteria and termination documents in order to quantify the items contained in the Senior Management contracts of Monzón and of General Directors Ms. Emma Fernández, Mr. Juan Carlos Baena, Mr. Emilio Díaz and Mr. Santiago Roura upon termination of their employment relationships with the Company and issued a report to the Board approving of them.

➤ Reassignment of duties

- The Committee made a favourable report regarding the proposal for reorganization and reassignment of duties among Senior Management designed with the goal of implementing changes and taking urgent actions made necessary in order to meet the objectives of the Strategic Plan.

Said changes were approved by the Board and made public by means of a communication of Material Event in the month of April.

- The Committee analyzed and issued a favourable report to the Board regarding organizational changes made necessary by the departure of General Directors Fernández, Baena, Díaz and Roura from the Company.

➤ Contractual Framework for Senior Management

The Committee analyzed updates of life insurance premiums paid for Senior Managers for fiscal 2015 and gave a favourable report to the Board.

The Committee reviewed the proposal for adjustment of compensation for those Senior Managers affected by a broadening or restriction of their duties as a consequence of the new organizational structure approved by the Board and gave a favourable report.

The Committee delivered a favourable report to the Board regarding the proposal for adapting the contracts of Executive Directors and Senior Managers to the new compensation scheme submitted to the Annual Shareholders' Meeting. Said contractual changes were realized with the advice of the law firm of Uría Menéndez.

Purchase of Shares by Directors

The Committee was informed regarding the particulars of the purchase of Indra shares by Directors in accordance with instructions approved 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 the following events, submitting a report to the Board with its recommendations:

- the other commitments of Mr. Abril-Martorell at the time of his appointment as new Executive Chairman of Indra.
- the appointment of Ms. Isabel Aguilera as independent director of Egasa Xxi and Oryzon Genomics, S.A.
- the appointment of Mr. Daniel García-Pita as independent director and chairman of Andbank España, S.A.
- the appointment of Mr. Juan March as proprietary director of Viscofan.
- information delivered by the Directors regarding their equity participation and regarding duties performed in companies whose business is the same as, analogous to or complementary with the business purpose of Indra, whether as an employee or as an independent contractor duties, including 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, including any semi-annual economic and financial reports made to the *Comisión Nacional del Mercado de Valores*, as well as Annual Financial Statements and the Annual Report on Corporate Governance.
- 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 proposed to the Board that Ms. Mónica de Oriol be reclassified as “Other External Director” due to the scope of related party transactions engaged in by the Company in 2014 with Grupo Seguriber-Umano, which was approved by the Board.
- At the time of drafting proposals for appointment and reelection 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, resulting in a proposal to the Board that the Bylaws be amended, as well as the Rules for the Annual Shareholders' Meetings and the Board Rules, with the goal of harmonizing them with changes made to the LSC and to the new Code of Good Governance for Listed Companies.
- 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 Sustainability, the contents of which were reviewed by the Committee in the exercise of its authority in these matters. The Committee proposed to the Board and the Board approved submission of said report to the Annual Shareholders Meeting as an item relating to management by the Board of Directors.

Other Matters

The Committee received a report from the head of Human Resources regarding the evaluation and revision of the talent directive and the internship plan put into place at the Company.