
**NOMINATION, COMPENSATION AND
CORPORATE GOVERNANCE
COMMITTEE**
Activities Report 2014

January, 2015

The Committee met eight times during fiscal 2014. This means, as a function of time necessary preparing for meetings and attendance at the meetings themselves, as well as the number of members of the Committee, a commitment of approximately 140 hours annually.

As it does every year, the Committee (i) drafted and approved its Annual Activities Report for the prior fiscal year, which was presented to the Board of Directors at its February, 2014 meeting; and (ii) in order to properly plan and organize the duties assigned to it, the Committee drafted an Action Plan for fiscal 2014, 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 2014 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

- Reelection and Nomination of Directors at the Annual Shareholders Meeting:
 - Reelection of Directors: Reelection of Independent Directors Ms. Isabel Aguilera, Ms. Rosa Sugrañes, and Mr. Ignacio Santillana, and reelection of Executive Directors Mr. Javier Monzón and Mr. Javier de Andrés, all of whose terms expired in 2014, was proposed to the Board. The Committee considered continuity of status and job performance; their level of expertise, ability and experience relative to the professional profiles required by the Board; and their level of attendance at meetings of the Board and its committees.
 - Nomination of Mr. Adolfo Menéndez and Mr. Juan Carlos Aparicio as Proprietary Directors representing the equity interest of Sociedad Estatal de Participaciones Industriales (SEPI). Mssrs. Aparicio and Menéndez had been previously named Directors through co-optation in September, 2013. The Committee verified that SEPI had continued to comply with the requirements necessary to have two members on the Board, that the professional profiles of the representatives continued to be appropriate, and their level of attendance at meetings of the Board and of its Committees.

➤ Resignation of Director:

The Committee took note of the seat held by Director Casa Grande de Cartagena, S.L.U. as a result of the sale of all of its equity interest and in accordance with the provisions of Article 24, paragraphs 2 f) and 3 of the Board Rules, considered the matter and resolved to ask for the Director's resignation.

➤ Creation of the Committee on Strategy:

- Taking into consideration the conclusions of the last evaluations of the Board, which made clear the increased relevance of strategic issues as well as the limited mandate and powers of the Executive Committee, the Nomination, Compensation and Corporate Governance Committee made a report to the Board recommending the creation of an advisory Committee on Strategy and elimination of the Executive Committee.

Initial membership on the Committee proposed and approved by the Board was the following:

- Chairman: Mr. Javier Monzón de Cáceres
- Member: Ms. Isabel Aguilera
- Member: Mr. Luis Lada Díaz
- Member: Mr. Juan March de la Lastra
- Member: Mr. Adolfo Menéndez Menéndez
- Member: Mr. Ignacio Santillana del Barrio
- Member: Mr. Alberto Terol Esteban

- As regards membership on Board committees, taking into account not only the elimination of the Executive Committee but also mandatory rotation of the Chairmanship of the Audit and Compliance Committee for 2015, a report was delivered to the Board proposing the following changes, which were approved by the Board:

a) Audit and Compliance Committee: nomination as member Mr. Ignacio Santillana to take the place of Mr. Luis Lada.

b) Nomination, Compensation and Corporate Governance Committee: nomination as member Ms. Rosa Sugrañes to take the place of Mr. Ignacio Santillana.

Composition, Compensation, and Duties of Senior Management

➤ Proposal for Variable Annual Compensation (2013) and Medium Term Incentives (2011-2013) for Senior Management

The Committee made a proposal for variable compensation amounts for each of the members of Senior Management for fiscal 2013 as well as medium term incentives for the period 2011-2013, in accordance with relevant criteria established by the Board of Directors, using an analysis of the degree to which objectives were met, performance and management of each senior manager in his or her area of competence, as well as his or her contribution to objectives set by Indra as a whole during fiscal 2013 as well as the period 2011-2013.

➤ Proposed Compensation Plan for Senior Management 2014-2016

The Committee made a proposal to the Board of Directors for fixed as well as variable annual compensation, delivery of stock, and medium term incentives for each member of senior management (including the Chairman and CEO) for the 2014-2016 period, which plans contain annual and multiannual components similar to those for prior periods except in the case of the CEO and Mr. Juan Tíno, in whose cases it was proposed to update their compensation to reflect new levels of responsibility in accordance with what had been anticipated when they were named.

In drafting the above mentioned proposal, the Committee took into account a report issued by the independent advisor Spencer Stuart regarding applicable market level compensation amounts.

As reflected in the Activities Report for this Committee for fiscal 2013, in December 2013 the Committee proposed to the Board of Directors and the Board approved the replacement of the old severance plan for early dismissal contained in Senior Management contracts with the Company with a long term early retirement and savings plan ("PPALP" for its acronym in Spanish), and created for such a purpose an outside defined contribution fund with an insurance company.

In bringing this plan to fruition, during fiscal 2014 the Committee proposed purchasing a life and casualty insurance policy with Executive Directors and Senior Managers as beneficiaries containing coverage for possible death or permanent disability occurring before the age of 62, in an amount similar to that which would be received by the Senior Manager in the event of termination without cause.

For Executive Directors, the premium amounts are considered as part of the maximum compensation of the Board agreed to at the 2013 Annual Shareholders Meeting as regards Article 27.1 of the Bylaws.

➤ Clawback

The Committee resolved to propose to the Board for its approval implementation of the principle under which it is possible to demand the return of payments made improperly (clawback) or for any other similar appropriate action as permitted by law when it becomes apparent after the fact that incorrect data may have been used in order to determine variable compensation amounts of any kind for Executive Directors.

➤ Delivery of Shares 2014-2016

The Committee made a proposal to the Board that it approve delivery of shares as part of the compensation package for Senior Management for the period indicated, using the same criteria applied in prior periods, except for the dates of delivery, as it was proposed that there be more than one delivery date each fiscal year and that those dates coincide with the purchase of shares by Directors, other than in the month of February. Annual payments will be made proportionally on those dates throughout the fiscal year. The Committee analyzed on its own and proposed to the Board approval of a document containing the General Conditions which would contractually govern Delivery of Shares.

➤ Contractual Framework for Senior Management

The Committee analyzed and proposed to the Board modifications to be made to the labor or services contracts of Senior Managers and Executive Directors, respectively, in order to contend with the replacement of the earlier severance plan for early dismissal with PPALP, which were drafted with the assistance of the offices of Uría & Menéndez.

➤ Reassignment of Responsibilities

The Committee gave its approval to the reassignment of responsibilities in the area of Senior Management by means of the appointment of Adjunct General Director Dolores Sarrión to head Human Resources, reporting directly to the Chairman and CEO, and replacing Tomás Contreras.

Compensation of the Board of Directors

The Committee proposed to the Board that the compensation plan for Directors remain unchanged for 2014 as it relates to their general functions of supervision and decision making as a group, understanding that the plan is consonant with market conditions and is in line with trends and best practices in such matters. In making this proposal, the Committee relied upon the advice of independent and highly experienced consultants in this area (PwC and Spencer Stuart). The Board approved the proposal and expressed its intent to keep said compensation the same for the next two fiscal years (2015 and 2016) unless specific circumstances warrant a change.

Purchase of Shares by Directors

The Committee was informed during its meetings held in March, May and December of the particulars of the purchase of Indra shares by Directors in accordance with instructions approved by each one of them individually.

Succession Plans for Senior Management

Updates of succession and contingency plans for each member of Senior Management, including the Chairman and CEO, were analyzed by the Committee in January, 2014.

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 appointment of Mr. Adolfo Menéndez as Chairman of Asociación Española de Tecnologías de Defensa, Aeronáutica y Espacio (TEDAE).
- the appointment of Mr. Alberto Terol as director of Nmás1 Syz Gestión, S.G.I.I.C, S.A. (IAG).
- the appointment of Mr. Luis Lada as non Executive Chair of Grupo Segur.

- the appointment of Ms. Isabel Aguilera as director of Playa Hotels & Resorts and of the real estate investment company Emin Capital.
- the appointment of Mr. Daniel García-Pita as independent director of DTS Distribuidora de Televisión Digital, S.A.
- the appointment of Mr. Santos Martínez-Conde as proprietary director of Bolsas y Mercados Españoles, S.A. (BME).
- the appointment of Mr. Juan March as proprietary director of AENA.
- information delivered by the Directors regarding their equity participation and duties performed in companies whose business is the same as, analogous to or complementary to the business purpose of Indra, whether for their own account or outside of the scope of their duties, and to include Financial Statements.

➤ Related Party Transactions:

- 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.
- quarterly monitoring of related party transactions between the Company and its significant shareholders within the guidelines of the above mentioned authorization of generic types of transactions, to be carried out in May and October.

Evaluation of the Chairman of the Board

Analysis and proposal regarding the criteria to be considered in order to make said evaluation as well as the Board's own self assessment using the criteria contained in the evaluation.

Annual Verification of Status for Directors

Analysis and report to the Board of Directors verifying that all of the Directors maintained the same status during the prior fiscal year that they had when they were selected.

In the specific case of Ms. Mónica de Oriol, the Committee included in its report a statement regarding its justification for continued characterization of her status as Independent, a statement which the Board adopted and, pursuant to that contained in paragraph a) of Article 5.3 of *Orden ECC 461/2013 de 20 de marzo*, incorporated such in the Annual Report on Corporate Governance.

Corporate Governance and Responsibility

- The Committee examined the conclusions from the analysis done regarding the legal and corporate governance ramifications of participation by SEPI on the Board, for which analysis it relied upon the offices of Ramón y Cajal and Uría y Menéndez, and presented to the Board the following proposal:
 - With regards to public information on related party transactions: take into consideration SEPI's fiscal autonomy and independent management and apply the same criteria to this shareholder as is applied to others, based on applicable law, and refer only to information related to the SEPI Group, excluding both the other companies with which it has links and those over which it exerts significant influence, such as the national government. This is consistent with the provisions of Article 39 of the Board Rules and with practices consistently followed by the Company in this regard.
 - With regards to the internal scheme for dealing with potential conflicts of interest and authorization of related party transactions, to which Articles 33 and 38 of the Board Rules apply, consider the entire context in which the related parties and the significant shareholders operate, using the highest degree of diligence and care.
- Analysis of the effectiveness and level of compliance with the Company's Corporate Governance rules and procedures during the past fiscal year, resulting in issuance of a favorable report to the Board regarding:
 - Effectiveness of the internal corporate governance rules during 2013.

- Compliance with said internal corporate governance rules of the Company during 2013.
 - Additionally, the Committee proposed that the Board not make any changes to said rules until publication of the new version of the *Ley de Sociedades de Capital* ("Spanish Companies Law") and publication of the new *Código Unificado de Gobierno Corporativo* ("Uniform Code on Corporate Governance") expected in 2014.
- 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 amended in conformance with the new model approved by the *Comisión Nacional del Mercado de Valores* (Circular 4/2013) and 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.