COMPENSATION POLICY FOR DIRECTORS OF INDRA SISTEMAS, S.A.

25 May 2017

Contents

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Pursuant to the requirements of Article 529.19 of the *Ley de Sociedades de Capital* ("Spanish Corporations Act" or "LSC"), the Compensation Policy for Directors is to be approved at the Annual Shareholders Meeting at least once every three years as a separate item on the Agenda.

This document describes the Compensation Policy for Directors of Indra Sistemas, S.A., ("Indra" or the "Company") and is submitted for approval at the Annual Shareholders Meeting to be held 29 June, 2017.

In the case that it is approved at the Annual Shareholders Meeting, the Company will apply this Compensation Policy for Directors during fiscal 2018, 2019 and 2020. Any modification or replacement of the Policy during this time will require prior approval at an Annual Shareholders Meeting in accordance with the terms of the above cited Article 529.19 of the LSC.

This proposed Compensation Policy is accompanied by a supporting Report from the Nomination, Compensation, and Corporate Governance Committee (the "Committee") in accordance with the provisions of Article 529.19 of the LSC. Both documents will be made available to Shareholders on the Company website upon call of the Annual Shareholders Meeting.

I. Principles of the Compensation Policy

Compensation for members of the Board of Directors ("Board") is determined in accordance with the Bylaws, the Board Regulations and resolutions adopted at Annual Shareholders Meetings.

In order to comply with the provisions of Article 217 of the LSC, said compensation is subject to periodic review in order to ensure that it is proportional to the size of the Company, the Company´s economic environment, and market standards for similarly situated companies. Also, in the policy´s design, structure and payment components of the compensation system, the Board should continuously ensure that it is geared toward promoting the company's long term profitability and sustainability and that it incorporate safeguards to avoid the assumption of excessive risk and avoid rewarding unfavorable results.

a) Principles and Bases for Director Compensation for their Duties as Directors

- Compensation for External Directors should incentivize their dedication, qualifications, and responsibility, but should not constitute an obstacle to their independence.
- Compensation should not incorporate components tied to Company profits or to share price, the object being to dissociate it from short term variations and goals, and it is to be paid entirely in cash.

- Given the high degree of personal attendance by Directors at Board and Committee meetings, and given that the post is quite demanding in terms of dedication and commitment of time, compensation should consist in a fixed amount, determined as a function of the duties assumed by each Director.

b) Principles and Bases for Director Compensation for Executive Functions

Executive Directors receive, in addition to their compensation qua directors, compensation based upon their contractual relationships with the Company for carrying out executive duties which are assigned to them.

This compensation is determined individually for each of the Executive Directors by the Board upon proposal by the Committee.

This Compensation Policy is based on the following principles and criteria:

- That it effectively attract and retain the best professionals, keeping their compensation in line with best practices and market conditions.
- That it motivate longevity in their posts and orient their management with exactitude and special focus on the long term, and have a reasonable relationship with equity value during that time.
- That it relate to the current situation, prospects, and objectives of sustainable growth for the Company.
- That it include fixed and variable components which are annual and multiannual; that it be paid in cash, in kind, and in items tied to equity value; and that it be determined consistent with the following criteria:

  i. That fixed compensation remain invariable for a period of three years except when specific circumstances arise which make a change advisable.
  ii. That variable compensation represent a substantial portion of total compensation.
  iii. That medium term compensation have a significant weight.
  iv. That compensation tied to stock price be significant.
  v. That the receipt of a significant portion of variable compensation be deferred.
  vi. That the weight of the various compensation elements be consistent with best practices in the market.

- Contracts are to contain clauses which permit the Company to demand reimbursement of any variable compensation paid in the event that it is subsequently discovered that determination of such was objectively determined to be based on erroneous or imprecise data.

II. Compensation Policy for Directors Arising from their Condition as Such

In accordance with Article 27 of the Bylaws, compensation paid to Directors arising from their condition as such consists of a fixed amount and per diems for attendance at Board meetings and meetings of the various committees, and this is paid in cash. The total amount paid to the Board corresponding to payments to its members arising from their condition as such may not exceed in any year the maximum amount determined at an Annual Shareholders Meeting.

In accordance with Article 529.17 of the LSC, the maximum annual amount of this compensation is decided at an Annual Shareholders Meeting in the Compensation Policy approved there.

In light of the above, it is proposed that the maximum amount of compensation for all Directors arising from their condition as such be fixed in the amount of 2,250,000 €. This maximum amount is calculated as a function of the average compensation per Director and the maximum number of Directors and committee members provided for in the Bylaws as well as in anticipation of the possible creation of additional committees. This limit will remain in effect until any modifications are approved at an Annual Shareholders Meeting.

Subject to said limit, the Board determines the amount of compensation payable to each Director arising from his or her condition as such taking into consideration the duties and responsibilities pertaining to each, membership on Board committees, assignments given, and other objective circumstances which it might deem relevant.

A breakdown appears below containing the key elements of the compensation policy for Directors arising from their condition as such.

Table 1. Compensation Policy for Directors Arising from their Condition as Such

	Purpose	Amount	Form of Payment
Fixed Amount	Adequately compensate for the dedication demanded of the post, but not so much that it jeopoardizes the independence of the Director.	Gross amount per Director: • For membership on the Board: 80,000€. • For membership on the Audit and Compliance Committee: 40,000€. • For membership on the Nomination, Compensation and Corporate Governance Committee: 24,000€. • For Membership on the Executive Committee: 24,000€. Chairmen of each body receive 1.5 times the amounts indicated. The Board may modify the above amounts subject always to the maximum limits approved at an Annual Shareholders Meeting for the Board as a whole under the current Compensation Policy.	To be paid entirely in cash.

As indicated, this compensation does not include any elements tied to profits or to the Company's stock price, with the goal of dissociating it from short term objectives and variables, and will be paid entirely in cash.

The Compensation Policy for Directors as such does not include the granting of credits, advances or guarantees issued by the Company to members of the Board. Neither does it include participation by non-Executive Directors in any pension plan.

Company Directors have no right to severance pay in the event of termination of their duties as Directors. Neither do they have, as Company Directors, any contractual right to any additional compensation not described in this section.

The Company has acquired an errors and omissions policy for its Directors.

III. Compensation Policy for Directors for Performance of their Executive Duties

The Committee applies the principles and criteria described above at the time that it determines the compensation scheme for Directors in performance of their executive duties.

The current Compensation Policy for Executive Directors is crafted in accordance with the following criteria:

- That a significant part of variable compensation is deferred (“Deferred Bonus”), and that payment of that deferred compensation is in stock.
- That contracts for senior management include a clawback clause which permits the Company to demand reimbursement for any variable compensation paid in the event that it is later objectively proven that said determination was based on incorrect or inexact data.
- That the weight given to shares in compensation reaches 50% of the total.
- That there be a mandatory policy of share ownership during the contractual relationship with the Company

In drafting this Compensation Policy, the Committee and the Board availed itself of the advice of an external consulting firm with specialized expertise in these matters.

Application of the above referenced criteria means that compensation for Executive Directors for performance of their executive duties is made up of the following components:

- Fixed Compensation (FC), representing 25% of total annualized compensation to remain invariable during the period of three years in which the Compensation Policy is in effect, except in extraordinary circumstances.

- Variable Annual Compensation (VAC), representing 35% of total annualized compensation for a 100% attainment of objectives. Thirty percent of the remaining amount (equivalent to 10.5% of total compensation at Target levels) is to be deferred over a three year period in equal parts and received at once in the form of Company shares, the number of which is determined – as a function of the average listed price for the thirty calendar days immediately preceding– on the date of delivery of the VAC. An amount equivalent to the dividends paid by the Company from the date of the granting of options will also be paid in cash.

- Medium Term Compensation (MTC), which represents 40% of total annualized compensation for 100% attainment of objectives. It is to be received entirely in Company shares – the target number of which is determined initially – as a function of reaching objectives set for the period (“Performance Share Plan”).

- Compensation in Kind, consisting of a life and health insurance by means of a global policy purchased by the Company for the cohort of senior managers.

- Long Term Early Retirement and Savings Plan funded by an insurance policy of which Executive Directors are beneficiaries. The Company will pay annually to the plan amounts calculated as a percentage of the total annualized compensation of the Executive Director, who will have the right to receive the accumulated amount in the Plan in the event of termination of his or her contractual relationship with the Company -- except in the case of voluntary separation or for cause – or upon reaching the age of 62.

Executive Directors commit to follow the following policy of nonalienation of shares during the entire time they are at their posts: maintain ownership of Company shares resulting from having invested an amount equivalent to twice their gross fixed compensation in their purchase. A maximum period of six years, counting from 1 January, 2016, will be given in order to make said investment, which must be maintained so long as they remain at their posts.

This form of payment yields the following results:

- Fixed Compensation represents 25% of the total while variable represents 75%.
- Compensation received in shares represents 50% of the total.
- Medium Term Compensation represents 50% of the total, counting the deferred portion of Variable Annual Compensation.

What follows is a table showing the components of the Compensation Policy for Executive Directors as it pertains to performing their executive duties:

Table 2. Compensation Policy – Executive Directors

	Purpose	Parameters	Procedure
Fixed Compensation (FC)	Compensation based on responsibility level and professional experience.	**Amount:** • CEO/Chairman 775m€. • COO 550m€. Fixed Compensation is to remain constant for a period of three years, except in extraordinary circumstances.	Determined by taking into account the portfolio of executive duties associated with the post and comparative compensation information for listed companies comparable to Indra. Situations exist where the Committee might acknowledge, for example, a change in responsibilities, development during incumbency and/or longevity issues. In these circumstances, the Board, upon proposal by the Committee, might propose a pay rise. The underlying reasons for such will be broken down in the corresponding Annual Compensation Report. In any event, any pay rise which may be conceded in accordance with the above indicated criteria for each of the Executive Directors during the effectiveness of this Policy may not exceed 10% of the indicated FC.

	Purpose	Parameters	Procedure
Variable Annual Compensation (VAC)	Compensation for creation of value by achieving set goals.	Target (100%) 140% of fixed annual compensation. Maximum (120% of target) 168% of fixed annual compensation. **Metrics** Tied to individual achievement and attainment of economic and financial goals of the business and specific, predetermined, quantifiable operations aligned with the interests of the Company and contained in the Company´s strategic plans, all without prejudice to the possibility of considering other objectives, whether quantitative or qualitative. Quantitative objectives have a minimum weight of 50% of total incentives. They consist of metrics which guarantee an adequate balance between financial and operational aspects of Company management. Qualitative objectives have a minimum weight of 30% of total incentives. They are primarily linked to the individual evaluations of Executive Directors. Objectives are determined annually for each Executive Director in each of the 3 fiscal years contained in this Compensation Policy by approval of the Board of Directors after a proposal by the Committee, and will be described in the corresponding Annual Compensation Reports. In determining the level of achievement of each objective, a central value is established, equivalent to a 100% achievement of said objective, which amounts to attainment of the annual goal of the Company for each parameter. A minimum and maximum percentage of achievement will be established by the Board for each of the determined objectives. Evaluation of the level of achievement of objectives does not take into account extraordinary results which may arise. The Annual Compensation Reports will contain a breakdown of the specific objectives and their weight as well as the overall percent achievement for each Executive Director.	It is the responsibility of the Board of Directors, upon proposal by the Committee, to approve goals at the beginning of each fiscal year and evaluate their achievement once the fiscal year is ended. Once the fiscal year is completed, the Committee sets the amount of VAC earned for the fiscal year based on the level of achievement of quantitative and qualitative goals. With the aim of ensuring that VAC is effectively tied to the performance of recipients, at the time of determining achievement level of quantitative goals, extraordinary events which might distort evaluation criteria are eliminated. The scale for measuring achievement, determined at the beginning of each fiscal year, includes a minimum level below which no incentive pay is made, a target level corresponding to 100% achievement of goals, and a maximum for each metric. In order to calculate the amount of variable compensation, the level of achievement and the weight given to each objective – individual and/or global – is considered applying internal rules and procedures for goal evaluation established by the Company for its management. 70% of the VAC is paid in cash before 31 March of the following fiscal year and 30% is deferred in three equal parts during a three year period and is received entirely in Company shares, the number of which is determined on the date of approval of the VAR by the Board as a function of the average listed price for the thirty prior sessions of the *Bolsa*. An amount equivalent to the dividends paid by the Company from the date of the granting of shares will also be paid. The Committee may propose that the Board make adjustments to the VAC before it is delivered, whether deferred or not, under exceptional circumstances due to internal or external factors. Details regarding said adjustments will be broken out in the corresponding Compensation Report. **Post Evaluation Control** Contracts with Executive Directors contain a clawback clause in which the Company retains the right of reimbursement of variable compensation amounts improperly paid when it is objectively apparent that such amounts were determined using any erroneous datum.
Medium Term Compensation (MTC)	Compensates the creation of long term sustainable value for Shareholders.	**Target** (100%) 160% of fixed annual compensation **Total Maximum** (133% of Target) 213% of fixed annual compensation. The maximum attainment level of each objective may individually reach 150% but together may not exceed the Total Maximum. **Metrics** Combination of economic, financial and operational objectives of the Strategic Plan along with the creation of shareholder value. Financial, strategic and operational metrics will have a maximum weight of 80%. Performance value will have a maximum weight of 30%. For the 2018-2020 triennium, objectives	The Plan is structured around a single three year cycle. Payment is made by an initial delivery of shares. Of the shares dedicated at the Plan's beginning, a percentage between 0% and 133% will be delivered at the end, calculated as a function of attainment of metrics tied to the MTC. The number of shares to be delivered will be determined as a function of the average listed price of shares in the prior 60 sessions of the *Bolsa* before the date that the Annual Shareholders Meeting for 2018. . Each metric has associated with it a scale of achievement, set at the beginning of the Plan, which includes a limit below which no incentive is paid whatsoever, a target level which corresponds to 100% achievement of objectives, and a specific maximum level for each metric. Evaluation of the level of achievement of objectives does not take into account circumstances outside the ordinary course of business (such as acquisitions, restructuring, intercompany transactions…) which might influence positively or negatively achievement of goals and which are outside the direct control of the Director. Additionally, the Board and the Committee, when performing their

	Purpose	Parameters	Procedure
		metrics and their weights for the CEO/Chairman as well as the COO will be determined by the Board of Directors upon recommendation by the Committee and described in the corresponding Annual Compensation Report. In determining the level of achievement of each objective a central value is established equivalent to a 100% achievement of said objective which amounts to attainment of the goal of the Company for each parameter. A minimum and maximum percentage of achievement is established for each goal. For achievement levels below the minimum threshold the value of the incentive is zero. The objective tied to share performance will be Total Shareholder Return relative to the Ibex 35 and will operate similarly to the manner established in the Compensation Policy for 2015-2017.	evaluation of goals may take other circumstances into account such as, for example the macroeconomic environment or the performance of Indra relative to its market/sector or similarly situated companies. The Committee may propose that the Board adjust MTC under exceptional circumstances due to internal or external factors. Details regarding said adjustments are broken down in the corresponding compensation report. **Post Evaluation Control** Contracts with Executive Directors contain a clawback clause in which the Company retains the right of reimbursement of variable compensation amounts improperly paid when it is objectively apparent that such amounts were determined using any erroneous datum. .

	Purpose	Annual Amount	Procedure
Early Retirement and Long Term Savings Plan	Deferred compensation tied to longevity of the Executive Director.	**Maximum** • CEO/Chairman: 15% total annualized compensation • COO: 17% of total annualized compensation	The Early Retirement and Long Term Savings Plan is made up of a defined external contribution fund by means of an insurance policy with individual payments, and is the only commitment on the part of the Company to make specific annual payments. Contributions are determined as a percentage of the total annual base pay (that is, considering the proportional part of the MTC) and are made during the contractual relationship with the Company up to age sixty-two, at which time the Executive Director will receive the accumulated savings regardless whether he remains or not linked to the Company (or at an earlier time in which the contractual relationship with the Company ceases without cause, including in the event of a change of control), in the form of cash, life annuity, or a combination of both.
Payments in Kind	Life insurance policies	The total annual cost of premiums for the two Executive Directors is less than 100m€	The Company has bought life insurance policies in order to cover the risk of death or disability of Executive Directors.
	Health Insurance	The total annual cost of premiums for the two Executive Directors is less than 20m€	Executive Directors are beneficiaries of a global health insurance policy which the Company has bought for senior managers.

Advances, Credits and Guarantees

Indra has in place a policy for granting advances and loans to members of the Steering Committee, of which the Executive Directors are members, establishing a maximum amount (equivalent to two month's gross annual fixed compensation) and repayment terms determined in function of the time allowed for repayment of said loan. Granting of these loans is subject to approval by the Board of Directors after a favourable report from the Committee and execution of the model contract provided for in the policy.

Contract Terms

The current contract governing performance of duties and responsibilities of Executive Directors is a business contract and incorporates clauses which are customary in this type of contract.

Table 3. Payments in the event of termination of the contractual relationship

	Early Termination	Voluntary Separation	Objective Reasons
Notice	Notice period of three months. In the event of separation before the end of the contract period, the Company pays the Executive Director. Severance is equal to the amount of total annualized compensation for the uncompleted notice period.	Notice period of three months. In the event of separation before the end of the contract period, the Executive Director pays de Company. Severance is equal to the amount of total annualized compensation for the uncompleted notice period.	Same terms as for Early Termination.
Severance	• CEO/Chairman: has a transitional right to receive severance equivalent to the positive number difference between the amount accrued on his behalf in the Early Retirement and Long Term Savings Plan and the amount equal to his total annualized compensation. • COO: there are no golden parachute or severance clauses.	In the event that the Executive Director decides to end his relationship with the Company arising from a substantial change in the conditions of employment due to a significant change in ownership of the Company having the effect of replacing management bodies of the company, or a change in its primary bustiness, so long as the decision to leave is made within six months of said change, severance shall be the same as for early termination.	Dismissal brought about by substantial non-compliance with duties as Executive Director. No severance in this case.

The severance clause in the CEO/Chairman's contract, equivalent to the positive difference between the amount accrued in the Early Retirement and Long Term Savings Plan and an amount equivalent to his total annualized compensation, is temporary and decreasing, and reduces to zero once the accrued amount reaches said annualized compensation amount.

This severance, which complies strictly with Recommendation 64 of the Code of Good Governance for Listed Companies in force in Spain and which amount is less than the average amount for Ibex 35 companies, excluding financial entities which are subject to a specific regulation applicable to them, will not be delivered in the case of voluntary separation or termination of the contractual relationship with the company for breach of contractual obligations by the Executive Director.

Table 4:- Exclusivity and Non-Compete

	Procedure
Non-Compete	Contracts with Executive Directors contain post-contractual non compete clauses for a period of two years upon termination of the relationship with the Company in exchange for payment of 0.75 times total annual compensation.

Policy of Nonalienation of Shares

Directors are committed to abide by the following policy of nonalienation of shares so long as they retain their posts: maintain ownership of a number of shares resulting from the investment in their purchase of an amount equal to two years' gross Fixed Compensation. A maximum of six years, beginning the earlier of 1 January 2016 or from the date of appointment, is given in which to make said investment.

Compensation Policy for New Appointees

In fixing the compensation plan for a new Executive Director, the Board and the Committee consider the experience and knowledge of the candidate, his or her provenance (internal or external to the Company) and compensation level at the time of appointment. Compensation is to be determined in all instances following the criteria, components and limits provided for in the present Compensation Policy.

In order to attract candidates from outside the Company, special incentives may be established to compensate for income lost due to early termination at the prior company. These special incentives will be fixed based on similar compensation for goals that are similarly demanding or difficult (and assuming they would have been met at the prior employer) and have a similar measurement period.

In the event of promotions from within, preexisting incentives and other obligations which may be in effect at the time of appointment may be cancelled and/or pay out.

In the event that the new appointment means an international assignment, the general policy of the Company for international assignments will apply.

IV. Term

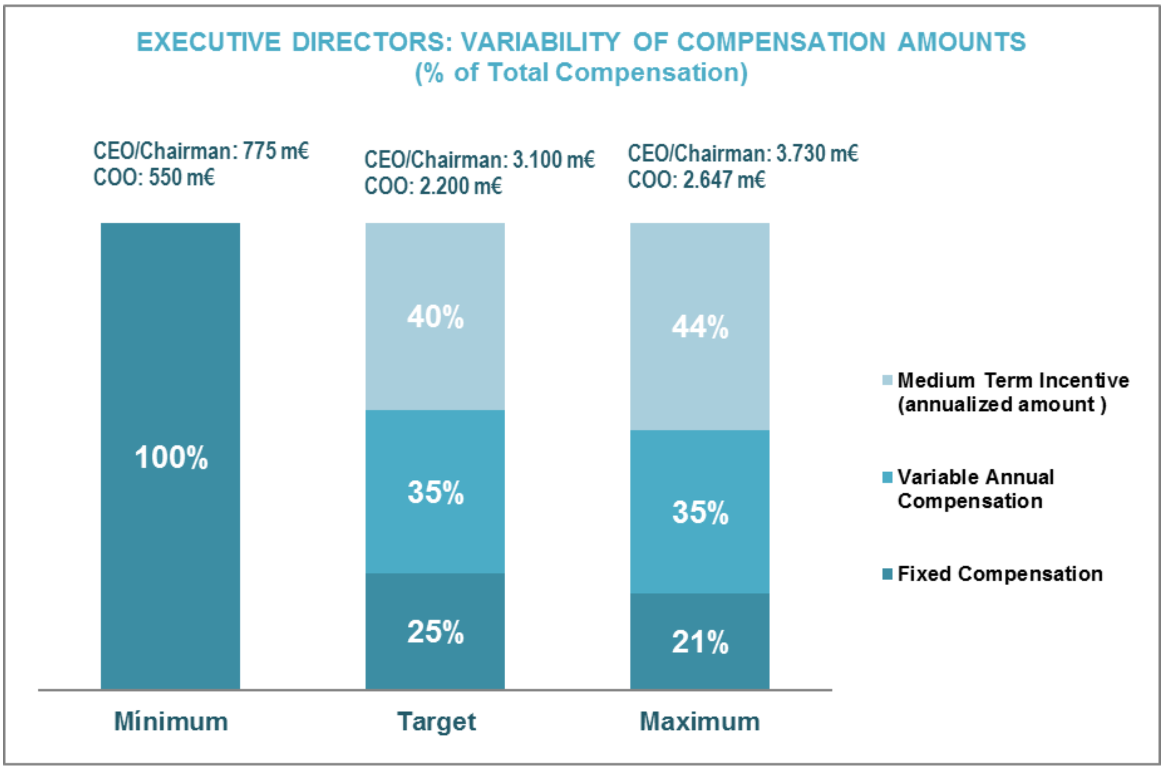
In accordance with the provisions of Article 529.19 of the LSC, the Company will apply the current Compensation Policy for Directors during fiscal 2018, 2019, and 2020.

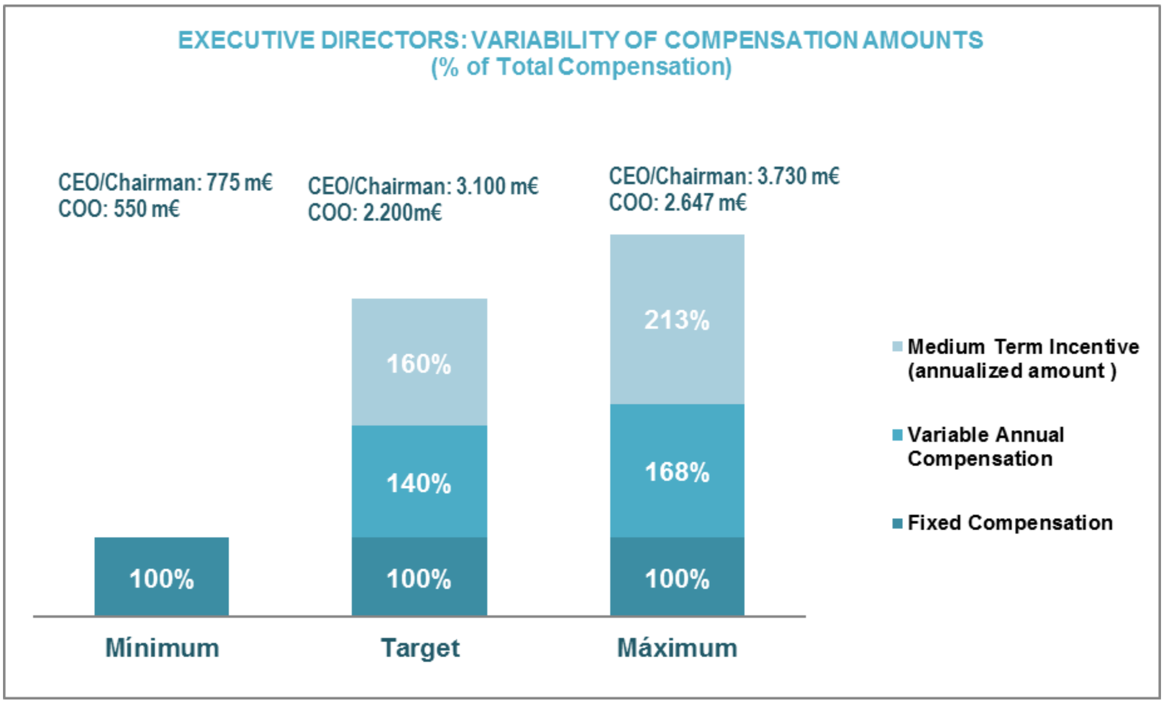
Any modification or replacement of this Policy during its term will require prior approval at an Annual Shareholders Meeting in accordance with applicable law.

In any event, this Policy is understood to apply without prejudice to any payments due to Executive Directors during its term which relate to deferred amounts of variable compensation arising from earlier fiscal years and which are subject to the previous Compensation Policy.

V. Additional Information

The compensation plan for Executive Directors is variable, depending on the results obtained by the Company. The charts below show variable compensation for Executive Directors (for performance of executive duties) under various scenarios of achievement of objectives (minimum, target and maximum), as well as the short term VAC and long term MTC.


EXECUTIVE DIRECTORS: VARIABILITY OF COMPENSATION AMOUNTS
(% of Total Compensation)
CEO/Chairman: 775 m€
COO: 550 m€
CEO/Chairman: 3.100 m€
COO: 2.200 m€
CEO/Chairman: 3.730 m€
COO: 2.647 m€
100%
40%
35%
25%
44%
35%
21%
Medium Term Incentive (annualized amount)
Variable Annual Compensation
Fixed Compensation
Mínimum
Target
Maximum


EXECUTIVE DIRECTORS: VARIABILITY OF COMPENSATION AMOUNTS
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COO: 2.647 m€
100%
160%
140%
100%
213%
168%
100%
Medium Term Incentive (annualized amount)
Variable Annual Compensation
Fixed Compensation
Mínimum
Target
Máximum