

## **REPORT DRAFTED BY THE NOMINATION, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE OF INDRA SISTEMAS, S.A. REGARDING THE PROPOSED APPOINTMENT AND RE-ELECTION OF DIRECTORS**

### **1. Purpose of the Report**

The Nomination, Compensation and Corporate Governance Committee (the "Committee") at Indra Sistemas, S.A. drafted this report in accordance with Articles 529 decies (section 6) and 529 quindecies (section 3.d) of the *Ley de Sociedades de Capital* ("Spanish Corporations Act" or "LSC") as regards proposals for appointment or re-election of non-Independent Directors which it brings before the Annual Shareholders Meeting (the "Meeting"), and in accordance with Article 529. Decies (section 4) of the LSC as regards proposals for appointment or re-election of Independent Directors.

As required by Article 20.3 of the Regulations of the Board of Directors of Indra ("Board Rules"), persons nominated to the Board must be persons of recognised personal and professional merit, with sufficient ability to put forth the necessary dedication to the post, and with no other interests that may be incompatible with it. The current selection policy for Directors provides for the following criteria to be followed in the choice of candidates: knowledge of (i) the sectors in which the Company does business as well as related sectors or those with similar characteristics; (ii) finance and control matters; (iii) evaluation and supervision of senior management and executive level human resources; (iv) economics in general and specifically in the geographic markets of highest importance to the Company; (v) management and business entrepreneurship.

Considering these criteria and requirements, and with a focus on the current needs of the Board, the Committee brings before the Shareholders: (i) the report regarding the proposed appointment and re-election of Proprietary Directors; and (ii) proposals for appointment and re-election of Independent Directors, which will be analysed below.

Professional profiles of the nominees for appointment or re-election will be made available to Shareholders from the moment of call to the Meeting on the Company website.

### **2. Report Regarding the Proposal for Appointment and Re-election of as Proprietary Directors**

On 31 January 2019, further to the favorable report made by this Committee, the Board resolved to appoint through cooptation as Proprietary Directors Mr. Antonio Cuevas Delgado and Mr. Miguel Sebastián Gascón representing the equity interests of Sociedad Estatal de Participaciones Industriales (SEPI).

As provided for in Articles 244 and 529 decies of the LSC, Directors appointed by the above mentioned cooptation procedure occupy their posts until the date of the next Meeting.

In addition, the term of Mr. Santos Martínez-Conde Gutiérrez-Barquín, Proprietary Director representing the equity interests of Corporación Financiera Alba, S.A., will end at the next Meeting.

Given the expectation that the Board of Directors, at its session held on 20 May 2019, would call the 2019 Meeting and propose appointment of Mr. Cuevas and Mr. Sebastián and the re-election of Mr. Martínez-Conde as Proprietary Directors, the Committee drafted this report for submission to the Meeting, in accordance with the provisions of section 6 of Article 529 decies of the LSC.

For the drafting of the report, the Committee followed the procedure described in Company rules regarding appointment of Proprietary Directors and it has analysed the current Company criteria, taking into account as well the reasons behind the nominations of Mr. Cuevas, Mr. Martínez-Conde and Mr. Sebastián in the past.

Their career paths and their professional profiles were evaluated in analysing the sufficiency of knowledge requirement. The Committee concluded that the profiles of the above-mentioned Directors meet the knowledge and experience requirements for Board membership, and that they are all capable of carrying out the duties of Director in accordance with the criteria set forth in the Board Rules and in the Selection Policy for Directors mentioned above:

- Mr. Martínez-Conde is CEO of Corporación Financiera Alba and a Director at Banca March, and has extensive experience in finance, financial control issues, business management and entrepreneurship. He also possesses a wide range of experience as a Director of other listed companies.
- Mr. Cuevas has broad knowledge of the sectors in which Indra does business, as well as other sectors which are related or which have similar characteristics (National Defence and Aerospace), having spent his professional career doing fieldwork in the Industry, among others.
- Mr. Sebastián has extensive experience and knowledge in finance and economics, having occupied important domestic and international posts in this field.

As regards capacity for dedication to the post, the Committee verified that the other professional commitments of Mr. Cuevas, Mr. Martínez-Conde and Mr. Sebastián, which are described in their professional profiles, permit them adequate effective dedication to the Board of Directors and the committees to which they are members.

Additionally, as regards Mr. Martínez-Conde, his performance for the past six years received a very high evaluation, achieving a very high level of personal attendance at Board meetings and meetings of the committees of which he has been a member.

As regards maintenance of the requirements demanded by the class of Director involved, in accordance with Board Rules, the Committee verified that the Shareholders whose significant equity interests are represented maintain sufficient equity interest in the Company to justify said representation on the Board.

After this analysis, the Committee resolved to endorse the following proposals:

- *Appoint Mr. Antonio Cuevas Delgado as Proprietary Director representing the equity interest of Sociedad Estatal de Participaciones Industriales (SEPI) for a term of 3 years as provided for in the Bylaws and upon proposal by the Board of Directors.*
- *Appoint Mr. Miguel Sebastián Gascón as Proprietary Director representing the equity interest of Sociedad Estatal de Participaciones Industriales (SEPI) for a term of 3 years as provided for in the Bylaws and upon proposal by the Board of Directors.*
- *Re-elect Mr. Santos Martínez-Conde Gutiérrez-Barquín as Proprietary Director representing the equity interest of Corporación Financiera Alba, S.A for a term of 3 years as provided for in the Bylaws and upon proposal by the Board of Directors.*

### **3. Proposal for Appointment and Re-election of Independent Directors**

The terms of Independent Directors Mr. Luis Lada Díaz and Mr. Alberto Terol Esteban will end at the next Meeting.

On this date Mr. Lada Díaz will have completed the maximum 12 year period during which a Director may be considered independent pursuant to Article 529 duodecies, section 4 i) of the LSC and for which reason his re-election is not proposed.

In 2016 the Board approved a more restrictive criterion for Independent Directors than that provided by Law, and incorporated the new criterion into the 2018 Director Selection Policy, consisting of not recommending for re-election those Directors who have been at their posts for 3 terms under the Bylaws, establishing thereby a maximum duration of 9 years.

Nonetheless, in the case of Mr. Terol, who has been an Independent Director at the Company since June 2010, the Committee believes it appropriate to make an exception to the application of this criterion and proposes his re-election for a new term under the Bylaws.

In making this proposal, the Committee took the following circumstances into consideration:

- His contribution and performance as Independent Director during his three terms, during which he has served as chairman of the Audit and Compliance Committee and of the Nomination, Compensation and Corporate Governance Committee, as well as his notable work as Lead Independent Director, a post in which he has served only the last two years.
- His deep understanding of the Company at a time of transformational change and implementation of a new Strategic Plan for which his experience is an essential asset.
- His professional profile taken in its entirety, with quite broad and valuable knowledge and experience for the Company and its Board of Directors.
- Recent accelerated turnover on the Board of Directors has meant that since June 2017 there have been seven new Directors, meaning that if Mr. Terol were not re-elected, at the next Meeting 9 of the 13 total membership and 5 of the 7 Independent Directors would have served an average of 12 months, reasons for which the experience and historical knowledge of Mr. Terol would be critical to the Board and its committees.

In order to cover the vacancy produced by the departure of Mr. Lada, and applying the rigor necessary in the selection process of those persons who are to fill the post of Independent Director (Article 20.4 of the Board Rules), the Committee availed itself of the advice of an external consultant of renowned prestige (Spencer Stuart), specialists in the selection process for Directors.

Taking into account the experience and knowledge considered necessary, and the commitment to gender diversity contained in the Director Selection Policy, at the beginning of the selection process the Committee drew up a profile of the ideal candidate to cover the vacancy left by Mr. Lada and to complement and strengthen the profile of the current members.

The Committee examined reports issued by the external consultant in which it evaluated the abilities and experience of each candidate and conducted personal interviews with them in order to make the best judgment possible. The Committee have decided to nominate as Director Ms. Isabel Torremocha Ferrezuelo, whose knowledge, abilities and experience meet the requirements described above.

As for adequacy of experience and knowledge of the Directors whose appointment or re-election is proposed, the following aspects should be taken into consideration:

- Mr. Terol has wide ranging experience and knowledge in the sectors in which the Company does business; in financial matters, audit and control; in general economic matters; international experience in the geographic markets of highest

importance to the Company; as well as business management and entrepreneurship. He is a Director on the Boards of other listed companies.

- Ms. Torremocha has a broad-based knowledge of finance and the sectors in which Indra does business, with a large amount of experience both domestically and internationally in the world of professional services. She also has experience in the evaluation and management of executive level human resources and strategic vision. She is a member of the Board of another listed company.

As for capacity for dedication to the post, the Committee verified that Ms. Torremocha's and Mr. Terol's other professional commitments, which are included in their professional profiles made available to Shareholders, permit them adequate effective dedication to the exercise of their duties as Directors at Indra.

In the case of Mr. Terol, as indicated above, the Committee has evaluated with very satisfactory result his previous performance in the post and has taken into account his level of personal attendance at meetings of Board meetings and meetings of the committees of which he has been a member.

Finally, in considering compliance with the requirements examined by the Committee regarding typology of Director, the Committee verified that there are no personal or professional circumstances which would affect the classification of Ms. Terremocha and Mr. Terol as Independent Directors.

After this analysis, the Committee resolved to bring the following proposals to the Meeting:

- *Re-elect Mr. Alberto Terol Esteban as Independent Director for a term of 3 years as provided for in the Bylaws and upon proposal by the Nomination, Compensation and Corporate Governance Committee.*
- *Appoint Ms. Isabel Torremocha Ferrezuelo as Independent Director for a term of 3 years as provided for in the Bylaws and upon proposal by the Nomination, Compensation and Corporate Governance Committee.*

#### **4. Composition and Diversity of the Board of Directors and its Committees**

Should the proposals brought before the Meeting be approved, the Board will continue to be composed of 13 members, 3 of which will be Executive and the other 10 will be Non-executive. Of these, 7 Directors will be Independent, representing 53.8% of the members of the Board. The proportion of Proprietary Directors will also remain consonant with the Shareholder structure of the Company. This composition complies completely with the Board Rules as well as the Code of Good Governance for Listed Companies so far as the size and qualitative composition of the Board of Directors (wide majority of Non-executive Directors and an adequate proportion of Proprietary to Independent Directors) as well as international standards regarding the independence of the Board.

| <b>COMPOSITION OF THE BOARD OF DIRECTORS 2019</b> |  |
|---|--|
|---|--|

|                        |           |
|------------------------|-----------|
| External Directors     | 10        |
| Independent Directors  | 7         |
| Proprietary Directors  | 3         |
| Shareholder SEPI       | 2         |
| Shareholder CFA        | 1         |
| Executive Directors    | 3         |
| CEO                    | 1         |
| Executive Directors    | 2         |
| <b>TOTAL Directors</b> | <b>13</b> |

As for the aggregate experience and knowledge of the Board, the Committee concludes that the resulting composition of these proposals for the Board members adequately encompasses the knowledge, abilities, qualifications, diversity and experience needed by the Company.

As for the composition of the Audit and Compliance Committee, upon proposal by the Committee and subject to approval at the Meeting of the proposals for appointment and re-election analysed above, the Board would name Ms. Torremocha as member of said Committee replacing Mr. Lada.

Consistent with the provisions of Article 529.2 quaterdecies of the LSC, at the next Meeting Mr. Santillana will complete 4 years as chairman of the Audit and Compliance Committee, being compulsory his replacement as chairman. The Committee has made a favourable report as to the designation of Mr. Enrique de Leyva as chairman of the Audit and Compliance Committee, taking into consideration his knowledge and experience in matters related to the duties of this Committee, The Audit and Compliance Committee will adopt formally the said appointment at its June session, although all its members already agree it.

Should the proposals for appointment and re-election of Directors brought before the Meeting be approved, the composition of the Audit and Compliance Committee beginning that date will be the following:

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| <b><u>Audit and Compliance Committee</u></b> |
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|                       |             |          |
|-----------------------|-------------|----------|
| Enrique de Leyva      | Independent | Chairman |
| Maria Rotondo         | Independent | Member   |
| Ignacio Santillana    | Independent | Member   |
| Isabel Torremocha     | Independent | Member   |
| Santos Martínez-Conde | Proprietary | Member   |
| Miguel Sebastián      | Proprietary | Member   |

As for the Nomination, Compensation and Corporate Governance Committee, subject to approval at the Meeting of the proposal for re-election of Mr. Terol, this Committee has unanimously approved that Mr. Terol continue as chairman. Composition of the Committee after the Meeting would be the following:

| <b><u>Nomination, Compensation and Corporate Governance Committee</u></b> |             |          |
|---|-------------|----------|
| Alberto Terol   | Independent | Chairman |
| Silvia Iranzo   | Independent | Member   |
| Ignacio Martín  | Independent | Member   |
| Antonio Cuevas  | Proprietary | Member   |
| Santos Martínez-Conde   | Proprietary | Member   |

These memberships comply with the norms and standards for Independence for Board committees.

It is noted that, subject to approval at the Meeting of his re-election as Director upon proposal of the Committee, the Board intends to agree that Mr. Terol continue discharging his duties as Lead Independent Director, and as the Vicechairman of the Board (pursuant to the provisions of Article 10.7 of the Board Rules).

The Board of Directors as well as the Committee are aware of the importance of promoting gender equality and of the importance of incorporating women into the Board when they meet the requirements of ability, appropriateness and dedication to the post of Director, deliberately seeking female candidates who possess the required professional profile.

This criterion has been integrated into the Director Selection Policy, which expressly promotes the application of gender diversity criteria as well as other circumstances, without introducing implicit biases which might lead to discrimination for any reason.

Referring to gender diversity, the above-mentioned Policy specifically provides the goal of reaching a minimum of 30% female representation among members of the Board by 2020.

Should the proposals for appointment and re-election above be approved at the Meeting, Indra will have already reached that objective this financial year, given that the total number of women on the Board would be four, representing 30.77% of the total number of Directors. The cohort of women also represents some 42.86% of the Independent Directors and 33.33% of Executive Directors.