

REPORT OF THE BOARD OF DIRECTORS OF INDRA SISTEMAS, S.A. RELATED TO THE PROPOSAL TO AUTHORIZE ISSUANCE, IN ONE OR MORE OFFERINGS, OBLIGATIONS, BONDS WHETHER CONVERTIBLE OR EXCHANGEABLE OR NOT, AS WELL AS OTHER FIXED INCOME INSTRUMENTS, WARRANTS, AND ANY OTHER INSTRUMENTS CONCEDING THE RIGHT TO ACQUIRE NEW SHARE ISSUANCES, OUTSTANDING SHARES OF THE COMPANY OR OF OTHER COMPANIES INCLUDED IN ITEM SIX OF THE AGENDA OF THE ANNUAL SHAREHOLDERS' MEETING SCHEDULED 28 AND 29 JUNE 2017 ON FIRST AND SECOND CALL, RESPECIVELY.

1. Purpose of the Report

This report is drafted by the Board of Directors of Indra Sistemas, S.A. ("Indra" or the "Company") in accordance with the provisions of Articles 286, 297, 417 and 511 of the *Ley de Sociedades de Capital* ("Spanish Corporations Act" or "LSC") in support of the proposal regarding authorization for the Board of Directors ("Board") of the Company that, for a period of five years, it be allowed to issue, in one or more offerings, bonds or obligations, whether exchangeable for Company shares or not, as well as other fixed income instruments, warrants, and any other instruments conceding the right to acquire new share issuances, outstanding shares of the Company or of other companies, with a limit of 1,500 million euros, and with the authority to waive pre-emptive rights consistent with Article 506 of the LSC.

2. Justification

Without prejudice to the specific reasons explained below which justify the renewal of authority given at the last Annual Shareholders meeting held 30 June 2016, the global environment of markets and the context of the current financial sector in Spain make it essential that any company, and especially those whose shares are listed, be able to take decisions which may be convenient or necessary in order to respond to particular circumstances which the company faces in the shortest period possible, while also reducing the attendant costs of such decisions. Since the Board of Directors is the decision making body most closely involved with these matters, and since it has the duty to represent the Company, it is important that it be vested with the flexibility needed in order to take decisions necessary at all times without the need to seek formal approval at Shareholders' Meetings because of the delay and costs involved in complying with legal requirements for convening and holding

such meetings, which would consistently put the Company at a significant disadvantage when compared to normal practice at the majority of listed companies. It is for this reason that it is considered appropriate to delegate to the Board of Directors the power to issue bonds or obligations, convertible and/or redeemable or not, for shares in the Company in an amount no greater than 1,500 M€ (or its equivalent in another currency). In the case of warrants, acquisition and exercise premium amounts will be taken into account in calculating the above mentioned limit. It is estimated that this quantity will be sufficient for the next five years to allow the Board of Directors to acquire, through issuance of instruments, whether convertible and/or redeemable or not, in Company shares or other analogous securities which may give rise to direct or indirect subscription or acquisition rights to Company shares, the outside resources necessary to meet the needs of the Company which may arise from time to time while, at the same time optimizing the Company's own resource structure. The Board will be empowered to decide, within the limits set at the Annual Shareholders' Meeting and in full compliance with applicable law regarding this type of issuance, the terms and conditions of each issue of this type of securities which it makes, with the goal that each issue is responsive to actual market conditions and the condition of the Company, and promotes the best interests of the Company. For this purpose, all warrants or other analogous instruments will be subject to the LSC as it applies to convertible securities to the extent that said rules are compatible with the characteristics of said instruments.

The proposal which is the subject of this report also makes reference to the delegation of power to the Board in order to adopt and carry out resolutions for increases in capital stock for no more than one half of the existing capital stock on the date of delegation and for a maximum term of five years, in accordance with the provisions of Article 297.1 b) of the LSC. Said delegation is needed in order to provide the agility mentioned above to carry out resolutions related to issuances and, when applicable, later conversions to Company shares, and all of it without prejudice to the requirement that for each issue a report must be drafted by the Board and a report must be drafted by an independent expert who is not the auditor for the Company and who is designated for said purpose by the *Registro Mercantil*, in accordance with the provisions of Articles 414 and 511 of the LSC.

Additionally, the proposal anticipates delegation of the power to waive pre-emptive rights up to an equivalent of 20% of capital stock in the aggregate. For the purposes of calculating this limit, increases in capital which may occur under the

delegation of authority as provided for in Item Five of the Agenda at the 2017 Meeting as well as increases associated with the issue of convertible securities which have partially or totally waived pre-emptive rights under the above cited Article 511 of the LSC as it relates to Article 417 of the same statute are taken into account, whenever such is in the best interests of the Company.

In this regard, and as has been explained above, the purpose of the current proposal is to access necessary outside resources which will satisfy corporate objectives for capital as they arise from time to time, ensuring minimization of time and financial costs in executing those decisions. From all of this it may be concluded that the above referenced proposal protects the best interests of the Company and promotes the most efficient achievement of its objectives, without prejudice to the drafting of the corresponding report for each issue made by the Board justifying said waivers of pre-emptive rights as they may be applicable. Said report is also to be accompanied by a report of an independent expert other than the Company auditor under the terms described above.

Additionally, it is anticipated that securities issued under this delegation of authority may be traded in secondary markets, whether regulated or not, part of an exchange, or whether domestically or internationally.

It may also be convenient from time to time to carry out the issue of securities authorized by this proposal by means of a subsidiary with a guarantee from the Company. Therefore, it is considered that it would be appropriate for the Shareholders at the Meeting to authorize the Board to guarantee in the name of the Company, within the limits described above, new issues of simple, convertible and/or redeemable fixed income securities or warrants made by subsidiaries during the time that this resolution is in effect, with the goal of giving the Board the maximum amount of flexibility in structuring issues of securities in a form that is the most convenient under the circumstances.

In the event that the proposed resolution is adopted, all powers delegated to the Board will be accompanied by the express authority of sub-delegation, which will further promote the goal of making the anticipated transactions as responsive as possible.

Finally, it is pointed out that the delegation of power to the Board of Directors contained in the above referenced proposal will render null and void any unused

portion of the power conferred at the Annual Shareholders' Meeting held 30 June 2016.

The part already executed consists in the issue of convertible bonds without preemptive rights in a total amount of 250 million euros with a seven year expiration date and the issuance of Ordinary Unsecured Bonds in the amount of 25 million euros resolved by the Board on 26 September 2016 and 22 December 2016, respectively, pursuant to said authorization.

The Board believes it appropriate to propose renewal of this authority in order to give the Company sufficient flexibility to take advantage of opportunities as they arise (market windows) for obtaining new resources under attractive financial conditions, especially in the current environment where the returns demanded by investors in capital markets for fixed interest instruments are at historical lows. Authority of the Board to make deals directly will also permit reduction in costs and market volatility risks thanks to the shortened period of time for completion of this type of transaction.

This delegation was shown to be of great utility in recent years and is a fundamental tool for carrying out the strategy of diversification of funding sources for the Company, giving the Board necessary maneuvering room and the response capability demanded in the current economic environment.

The Board of Directors is keenly aware of the concerns which may arise from issuances made under this authority, as increases in capital stock would cause shareholders to worry about their potential dilutive effect. In this regard, the Board understands this effect and takes it into account both in adopting any such decision and in deciding where and how funds for said issuance are to be used. This was done for the last issuance approved in September 2016 in which it was decided to dedicate part of the funds obtained for the partial repurchase of the issuance of convertible bonds made during fiscal 2013. With the same goal of minimizing the dilutive effect that such increases in capital stock may have under its current authority as well as that which may be granted under the proposal appearing in Item Five of the Agenda, the Company voluntarily submits to the limit established in Recommendation 5 of the Code of Good Government for Listed Companies which provides that such increases in capital should not amount in the aggregate to more than 20% of the present capital stock of the Company.

In any event, as has been indicated, the transactions carried out under the aegis of this authorization where pre-emptive rights are excluded will require that the Board of Directors perform an analysis of the advantages, opportunities, and potential creation of value that said issuances will deliver to the Company and its shareholders and that the Board issue a detailed report in which it explains why carrying out such transactions is in the best interests of the Company.

As a result, in calculating the limits of authority submitted for approval at the Meeting today under this Item of the Agenda, the issuances made pursuant to the prior authorization made at the Annual Shareholders' Meeting of 2016 referenced above will not be included. Additionally, the limits for this new authority will be calculated based on the new amount of capital stock resulting from the increases in capital arising from closing the public offer made by Indra for acquisition of shares of TecnoCom, Telecomunicaciones y Energía, S.A., and approved at the Extraordinary Shareholders Meeting of the Company held this past 20 February 2017, after which the capital stock of the Company rose to 35,330,880.40 euros represented by 176.654.402 shares with a par value of 0.20 euros each.

The PROPOSED RESOLUTION submitted for approval at the Annual Shareholders' Meeting is the following:

DELEGATION TO THE BOARD OF DIRECTORS, WITH EXPRESS POWER TO SUB-DELEGATE, THE AUTHORITY TO ISSUE IN ONE OR MORE OFFERINGS, OBLIGATIONS, BONDS WHETHER CONVERTIBLE OR EXCHANGEABLE FOR COMPANY SHARES OR NOT, AS WELL AS OTHER FIXED INCOME INSTRUMENTS, WARRANTS, AND ANY OTHER INSTRUMENTS CONCEDING THE RIGHT TO ACQUIRE NEW SHARE ISSUANCES, OUTSTANDING SHARES OF THE COMPANY OR OF OTHER COMPANIES, WITH A LIMIT IF 1,500M €. THIS AUTHORIZATION INCLUDES THE DELEGATION OF POWERS NECESSARY, WHEN APPROPRIATE, TO: (I) DETERMINE THE CONDITIONS AND RATIOS OF CONVERSION, EXCHANGE OR EXERCISE; (II) INCREASE CAPITAL STOCK IN THE AMOUNT NECESSARY TO CARRY OUT CONVERSION REQUESTS; AND (III) WAIVE PRE-EMPTIVE RIGHTS FOR SAID ISSUANCES, LIMITED TO A MAXIMUM OF 20% OF THE PAR VALUE OF CAPITAL STOCK.

In accordance with the report drafted by the Board of Directors under the provisions of Article 286 of the LSC:

Delegate to the Board, in accordance with the general provisions regarding the issuance of securities and in accordance Articles 297.1 b), 417, and 511 of the LSC, and Article 319 of the *Reglamento del Registro Mercantil* ("Rules of the Commercial Registry"), the power to issue tradable securities in accordance under the following conditions:

1. Instruments subject to the Issue.

The negotiable securities referred to in the present delegation of authority may consist of bonds or obligations, or simple or convertible in newly issued shares or redeemable for already issued Company shares, as well as other fixed income instruments, warrants, or any other instrument with pre-emptive rights or rights to acquire currently issued shares of the Company and any other securities or financial instruments tied to Company earnings.

2. Maximum amount of the delegation.

It is to be noted that, pursuant to the provisions of the LSC, the Company is not subject to a legal limit on the issuance of these obligations. Nonetheless, the maximum total amount for any issue or issues of securities as described above which may be made under the authority of the present delegation to the Board is to be voluntarily fixed at 1,500 million euros or its equivalent in another currency at the time of its issue.

For the purposes of calculating the above referenced limit, in the event that the warrants include premiums or fees for their exercise, such amounts will be included.

3. Time.

Issuance of the securities which are the subject of this authorization will take place in one or more tranches during a period of no longer than five years beginning on the date of adoption of this resolution.

4. Scope.

For illustrative purposes only, the Board will receive the following authority which, in the event of issuance of convertible and/or redeemable obligations, will be exercised in accordance with standards later approved following the provisions of Article 414 of the LSC:

- a) To agree to the issuance of obligations in one or more tranches and to determine the price of each issue setting: the date or dates of issue; the number of securities and their par value which, in the event of convertible securities will not be less than the par value of shares at the time of issue; the rate of interest, dates and payment procedures for coupons; the time and conditions for redemption and their expiry date; subordination terms, if any; redemption rates, premiums and lot sizes; guarantees; the manner to be recorded using titles or book entries; anti-dilution clauses; the maximum amount per subscriber; the place and time for subscription; pre-emptive rights; and, generally, any other condition of issuance as well as procedures for surrender or redemption of the securities.
- b) To decide not to make any issue by not exercising its authority. Upon expiration of the time established for the issuance of securities, whether fixed income, convertible, redeemable or not, should the Board not make use of its authority, such shall be considered expired and have no effect whatsoever.
- c) In the case of convertible and/redeemable securities, determine if they will be voluntary or forced, and in the event that they be voluntary whether at the option of the title holder or the issuer, to determine in either event the timing and conversion period for the issuance, which may not exceed the expiry date for each of the debentures, as well as determine whether the conversion and/or redemption is to be done by delivery of shares or synthetic instruments or derivatives, with the attendant right to underwrite derivatives when appropriate.
- d) In the case of warrants and analogous securities which give rise to subscription or acquisition rights in shares, fix the issuance price and/or premium, the strike price -- which may be fixed, determinable or variable -- and the procedure, conversion period and other applicable terms for exercise of the acquisition or subscription rights of the underlying securities.
- e) Determine subscription terms, priority of securities and any subordination clauses and the law to be applied to the issuance.
- f) Request, when appropriate, permission to trade any issued securities in foreign or domestic secondary markets under the terms and conditions of applicable rules and, in general, any other condition for their issuance.

- g) Make early redemption of any convertible or redeemable issue or issues.
- h) Extend the registration period open to third parties before said period expires or reduce the volume of the issue to the amount subscribed upon close of said period.
- i) Authorize, when appropriate, the creation of a defence association or bondholder syndicate and appointment of a trustee in accordance with the provisions of Article 403 et seq. of the LSC and with applicable law.
- j) Set the foundational rules to apply to the legal relationship between the Company and the bondholder syndicate or syndicates created in accordance with the provisions of the LSC and applicable law.
- k) Modify the terms and conditions of the issues when considered appropriate and subject to obtaining any necessary permission and agreement of the corresponding bondholder syndicates or at their meetings, as the case may be.
- l) Correct, clarify, interpret, specify or supplement any resolutions adopted at the Annual Shareholders' Meeting or those contained in any filings or documents produced as a result and, in particular, any defects, errors or omissions, whether of style or of substance, which might impair giving full effect to those resolutions at the *Registro Mercantil*, *Registros Oficiales de la Comisión Nacional del Mercado de Valores* or any other place.
- m) Edit and publish any prospectus that it deems necessary.

5. Conditions and ratios for conversion and/or redemption.

As regards determining the conditions and ratios for conversion and/or redemption, the resolution establishes the following criteria:

(i) The securities issued under the authority of this resolution may be convertible and/or redeemable for Company stock at a fixed or variable conversion or redemption rate, at a fixed or determinable strike price, it being up to the discretion of the Board to determine if they are convertible or redeemable, as well as to determine whether conversion or redemption be forced or voluntary, at the discretion of the issuer, subject to general conditions or those of specific application and, in the event that they be voluntary at the option of the bondholder or of Indra Sistemas, S.A., or in the occurrence of some event or condition, the frequency and

period established upon issuance, which may not exceed fifteen (15) years from the date of issue.

(ii) The Board may also establish, in the event that the issue be convertible or redeemable, that the issuer reserve the right to choose between conversion to new shares or exchange for outstanding shares of Indra Sistemas, S.A., fixing the type of shares to be delivered at the time that said conversion or redemption takes place, including also the right to choose to deliver a mix of new and outstanding shares of Indra Sistemas, S.A., settlement through payment of the difference in value in cash, and including making the redemption through derivatives or synthetic instruments, in which case the Board may underwrite derivatives which may be necessary or convenient in order to hedge any risks arising out of the transaction. In any event, the issuer is to treat equally all convertible and/or redeemable fixed income securities holders on any given date.

(iii) For the purposes of conversion and/or redemption, the securities will be valued at par and Company shares will be have a fixed or determinable price set at the time of issue as a function of the listed value of Indra Sistemas, S.A. shares on the Bolsa on the date(s) and during the period(s) set in the issue documents, with or without a discount or premium, it being up to the discretion of the Board to decide the conversion and/or redemption criteria which it deems appropriate.

The Board may also decide to issue convertible and/or redeemable fixed income securities with a variable conversion and/or redemption rate. In these cases, the share price of Indra Sistemas, S.A. for the purposes of conversion and/or redemption will be determined by the Board, which may include a premium or a discount in the share price resulting from the established criteria. The premium or discount may be different for each conversion and/or redemption date for each issue and, when applicable, for each tranche.

(iv) Upon conversion or redemption, fractional shares due to a bondholder will be rounded down to the nearest whole number by default, and each bondholder will receive the difference in cash between the value of the number of shares to be received in accordance with the issue and the actual number received.

(v) Under no circumstances shall the price of shares upon conversion be less than par. Also, in accordance with the provisions of Article 415 of the LSC, no bonds may be convertible into shares when their par value is below the share par value.

At the time of approval of an issue of convertible bonds pursuant to the authority contained in this resolution, the Board will issue an administrators' report describing in detail and in accordance with the above described criteria, the conditions and ratios for conversion specifically applicable to the subject issue. An independent expert who is not the accounts auditor for Indra Sistemas, S.A., will also issue a report in accordance with the provisions of Article 414 of the LSC, and both documents will be published on the Company website as soon as the issuance has been approved.

6. Conditions and ratios for exercising warrants and other analogous securities.

In the event that warrants and other analogous securities which give rise to subscription or acquisition rights to Company shares are issued, because of their atypical nature, the provisions of the LSC as they relate to convertible bonds will be applied by analogy. As regards the conditions and ratios for their exercise, the Board will be empowered to determine, in the broadest possible terms, the criteria applicable for acquisition or subscription right conferred by securities of this type issued under the authority of the power so delegated and applying to them the criteria established in section 5 above, making any changes necessary in order to make them compatible with the specific characteristics of this type of security.

7. Exclusion of pre-emption rights and increase in capital.

This delegation to the Board also includes, by illustration, but is not limited to delegation of the following:

(i) Authority of the Board, pursuant to the provisions of Article 511 of the LSC as it relates to Article 417 of the same statute to waive, totally or partially, pre-emptive rights of Shareholders. In any case, should the Board decide to suspend pre-emptive rights for Shareholders regarding specific issuances of convertible bonds or securities, warrants and other similar instruments which it may decide to issue under the power vested in it by this resolution, at the time that said issuance is approved and in accordance with applicable law, it shall draft a report detailing the specific corporate best interests which justify said suspension, which shall also be the subject of a concurrent report from an independent expert who is not the auditor of the Company financial statements, named by the *Registro Mercantil* and referenced in Articles 414, 417 and 511 of the LSC. Said reports shall appear on the Company website as soon as the terms of issuance have been decided.

This authority shall in all instances be limited to those capital increases brought about under the terms of this authorization and which meet the objectives of Item Five of the Agenda for the Annual Shareholders' Meeting and up to an aggregate limit of 20% of the capital stock of the Company at the time the resolution is adopted.

(ii) The power to increase capital in the amount necessary to meet demand for conversion and/or the exercise of pre-emptive rights in shares.

This power may be exercised only so long as the Board, does not exceed the limit of one half of the company capital stock as provided for in Article 297.1 b) of the LSC, when adding together the capital increase made necessary to bring about the issuance of convertible securities or those which give rise to share subscription rights, and all other increases in capital agreed upon in accordance with the power vested to it at this Annual Shareholders' Meeting. This authorization for increase in capital includes that of issuing and placing into circulation, in one or more tranches, the number of shares necessary in order to bring about such conversion and/or exercise of subscription rights in shares, as well as the power to amend the article of the Bylaws related to the amount of capital stock and, if necessary, rescind the part of any said capital increase made unnecessary for conversion and/or exercise of subscription rights.

(iii) The power to create and establish the conditions and ratios for conversion, redemption and/or exercise of subscription rights and/or the acquisition of shares arising from the issued securities, taking into account the criteria established in the sections above.

(iv) The delegation to the Board includes the broadest possible powers under law which may be necessary for the interpretation, application, execution and promotion of the issuances of securities convertible or redeemable for shares in Indra Sistemas, S.A., in one or more tranches, and the corresponding increase in capital, if any, vesting as well powers to correct and supplement the same in all manners that may be appropriate, as well as becoming compliant with those legal requirements necessary to bring them about, and including the power to correct omissions or mistakes in said agreements which may be pointed out by any domestic or foreign authority, civil servant or body, vesting as well the power to adopt any and all agreements and deliver whatever public and private documents it considers necessary or convenient in order to carry out prior issuances of convertible or redeemable securities and the corresponding increase in capital under written or oral

instructions from the *Registro Mercantil* or, generally, any other competent foreign or domestic authority, civil servant, or institution.

8. Permission to trade.

Indra Sistemas, S.A. may apply, when appropriate, for permission to trade shares issued by Indra Sistemas, S.A. pursuant to this authority on domestic or foreign secondary markets granting the Board to the maximum extent permitted by law to fulfill such requirements and perform such acts necessary for listing before the competent bodies of the various domestic and foreign exchanges.

It is expressly noted that in the event that a request to delist is made at a later date, that it will be done following the same formalities as the request for listing, to the extent that such are applicable and, in such an event, the interests of Shareholders and bondholders who abstain or vote against such measure will be guaranteed in accordance with applicable law. Also, it is expressly stated that Indra Sistemas, S.A. submits itself to existing and future rules regarding the Bolsa, especially those related to trading, listing and delisting.

9. Power to sub-delegate.

The Board of Directors is expressly authorized by these presents to delegate, under the provisions of Article 249 bis section L) of the LSC, the power to develop, complete, implement, interpret and correct capital stock increases referred to this agreement.

The current delegation of authority will render null and void any unused portion of that authority granted at the Meeting held 30 June 2016.

May 2017