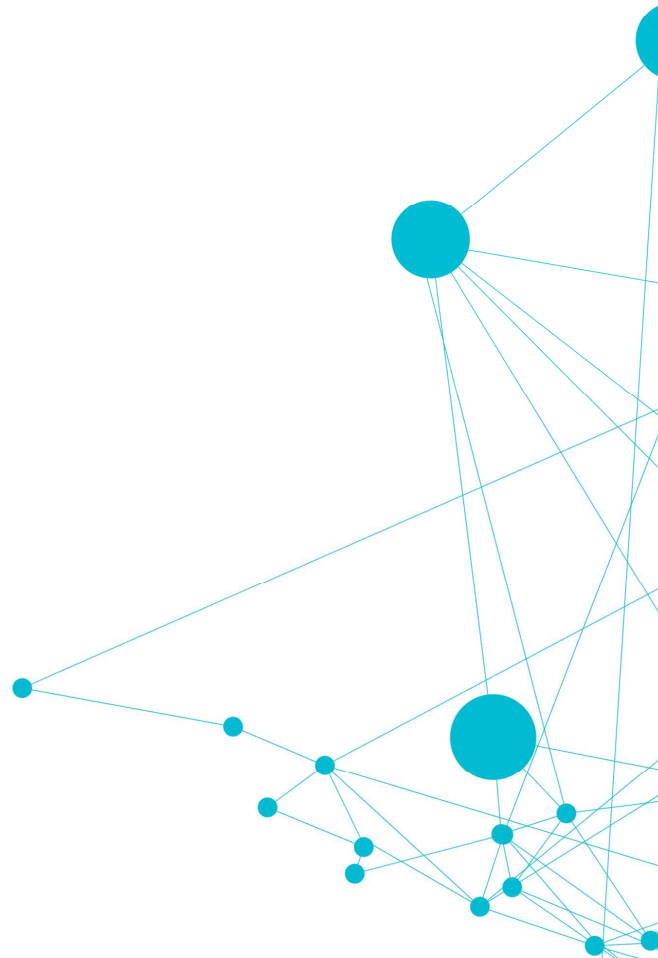




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# **ANNUAL REPORT ON COMPENSATION POLICIES FOR INDRA'S DIRECTORS AND SENIOR MANAGERS**

April 2010



# INFORME ANUAL SOBRE POLÍTICA DE RETRIBUCIONES DE LOS CONSEJEROS Y DE LOS ALTOS DIRECTIVOS DE INDRA

## ANNUAL REPORT ON COMPENSATION POLICIES FOR INDRA'S DIRECTORS AND SENIOR MANAGERS

This report has been prepared by the Board of Directors of INDRA at its meeting on April 22, 2010 following a proposal from the Nomination, Compensation and Corporate Governance Committee as stipulated in Article 29.4 of the Board Rules.

### 1. Compensation policy, structure and level of compensation of directors

In accordance with the provisions of Article 27 of the Bylaws, each Director's compensation package consists of a fixed component, the maximum amount of which is determined at the Annual Shareholders Meeting (the "Meeting"), and profit sharing of the Company. It may also consist of the allocation of shares or stock options, subject to prior agreement at the Meeting.

At the 2008 Meeting the Board's compensation for a new period of years (2008, 2009 and 2010) was approved. For a Board of Directors composed of 15 members, the maximum amount of the annual fixed component was set at 875,000€ and the limit for profit sharing at 1.4 times this amount, i.e. 1,225,000€.

The Board distributed amongst the Directors the above amounts as follows:

- (i) Fixed component of 32,000€ for membership on the Board of Directors, 18,000€ for belonging to the Executive Committee, 24,000€ for being a member of the Audit Committee and 18,000€ for being on the Nomination, Compensation and Corporate Governance Committee. The chairman of each committee - except in the case of the Executive Committee - receives an amount equal to 1.5 times the amounts indicated above.

The Board considered it appropriate to continue distributions in fixed amounts given the high rate of attendance by Directors at Board and committee meetings, and considering also that membership requires great dedication and places significant demands on Directors' time.

- (ii) Profit sharing continues to be distributed equally among board members, in proportion to effective time in office during the fiscal year. The Board is empowered to adjust profit share distribution if warranted under the circumstances.

The Board has decided each year that, in the event of non-achievement of the growth and profitability objectives announced publicly in each fiscal year, it would reconsider the amount of profit sharing distributed to

Directors, and bring any resulting proposals before the Annual Shareholders Meeting. This rule has not been applied in any of the fiscal years since profit sharing was set by the By-Laws in 1999, since the Parent Company has fulfilled or exceeded its publicly announced objectives every year.

At the 2008 Meeting it was also decided that 50% of the gross amount of profit sharing is to be paid in Company shares at market price at the time of payment. This means that for a Director who is a natural person only 23% of profit sharing is received in cash and only 55% of total average compensation. The Board has asked the Directors to commit to retaining ownership of the shares during the time that they remain in office, and all of them have agreed.

These figures mean total maximum annual average compensation per director of approximately 140,000€ compared to 120,000€ for the previous three year period, meaning that in 2010 the average compensation per director will have increased at an average annual rate since 2005 of 3.1%. Likewise, almost 60% of the maximum average Board compensation is linked to Company performance and is not guaranteed.

The Board considers the compensation scheme, in its gross amount as well as the average per Director, to be reasonable considering the analysis carried out in 2008 by the Nomination, Compensation and Corporate Governance Committee of practices engaged in by similar Ixex 35 companies comparable to INDRA, as well as other comparable international companies, and conforms to the character of the Company, the professional qualifications it demands from its Directors, and the commitment and dedication required for the diligent performance of the position.

The Nomination, Compensation and Corporate Governance Committee and the Board believe that the compensation plan currently in place accomplishes the goals envisioned by Board Regulations in that the compensation of External Directors is adequate and properly reflects their dedication, qualifications and responsibility, but does not constitute, in the case of the Independent Directors, an impediment to their independence, as well as meeting the criteria that fixed compensation components be a moderate portion of overall compensation, its distribution taking into account the varying degrees of dedication required by each Board Committee.

The Board, through the Nomination, Compensation and Corporate Governance Committee, has asked the independent firm Egon Zehnder International, with well known experience and reputation in this field, to render an opinion on the compensation policy for Directors of the Company. In response, Egon Zehnder stated that it considers Board compensation to be "adequate, prudent and at a level appropriate to the characteristics and history of the Company," considering likewise "that setting compensation for three year periods is appropriate."

Total compensation paid each member of the Board of Directors during fiscal 2009, in their capacity as Directors of the Company, is indicated in the following chart:

Director's Compensation (€) 2009							
DIRECTOR	Fixed Allowance				TOTAL FIXED ALLOWANCE	PROFIT SHARING (50% in shares)	TOTAL
	BOARD	EXECUTIVE COMMITTEE	AUDIT AND COMPLIANCE COMMITTEE	NOMINATION, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE			
ADM. VALTENAS <sup>(1)</sup>	32,000	--	--	--	32,000	81,666	113,666
I. AGUILERA	32,000	18,000	24,000	--	74,000	81,666	155,666
CASA GRANDE DE CARTAGENA	32,000	--	10,000	--	42,000	81,666	123,666
D. GARCÍA-PITA <sup>(2)</sup>	16,000	--	--	9,000	25,000	40,833	65,833
S. GABARRÓ <sup>(3)</sup>	24,000	--	--	13,500	37,500	61,250	98,750
MEDIACION Y DIAGNOSTICOS <sup>(4)</sup>	32,000	18,000	--	18,000	68,000	81,666	149,666
L. LADA	32,000	9,000	--	9,000	50,000	81,666	131,666
H. LOPEZ ISLA <sup>(5)</sup>	12,000	6,750	9,000	--	27,750	30,625	58,375
P. LOPEZ JIMENEZ	8,000	--	--	4,500	12,500	20,417	32,917
J. MARCH <sup>(7)</sup>	13,333	7,500	--	--	20,833	34,028	54,861
J. MONZON	48,000	18,000	--	--	66,000	81,666	147,666
R. MORANCHEL	32,000	18,000	--	--	50,000	81,666	131,666
J. MOYA-ANGELER	32,000	18,000	--	27,000	77,000	81,666	158,666
M. ORIOL	32,000	--	24,000	18,000	74,000	81,666	155,666
PART. Y CARTERA DE INVERSION <sup>(8)</sup>	32,000	--	24,000	--	56,000	81,666	137,666
P. RAMON Y CAJAL <sup>(9)</sup>	16,000	9,000	--	--	25,000	40,833	65,833
M. SOTO	32,000	--	36,000	--	68,000	81,666	149,666
R. SUGRAÑES <sup>(4)</sup>	32,000	18,000	--	--	50,000	81,666	131,666
R. VILLASECA <sup>(10)</sup>	6,667	1,500	2,000	--	10,167	17,014	27,181
<b>TOTAL</b>	<b>496,000</b>	<b>141,750</b>	<b>129,000</b>	<b>99,000</b>	<b>865,750</b>	<b>1,225,000</b>	<b>2,090,750</b>
<b>Average Compensation per Director (15 Directors)</b>					<b>57,717</b>	<b>81,666</b>	<b>139,383</b>

(1) Representing Caja Asturias (2) Since July, 2009 (3) Since April, 2009 (4) Representing Caja Madrid (5) Until May, 2009 (6) Until March, 2009 (7) Since August, 2009 (8) Representing Caja Madrid (9) Until June, 2009 (10) From May until July, 2009.

The compensation payable in 2008 for similar concepts was:

50% of the indicated compensation was paid in shares at market price at the time of delivery.

Director's Compensation (€) 2008							
DIRECTOR	Fixed Allowance				TOTAL FIXED ALLOWANCE	PROFIT SHARING (50% in shares)	TOTAL
	BOARD	EXECUTIVE COMMITTEE	AUDIT AND COMPLIANCE COMMITTEE	NOMINATION, RMUNERATION AND CORPROATE GOVERNANCE COMMITTEE			
ADM. VALTENAS <sup>(1)</sup>	32.000	--	--	--	32.000	81.666	113.666
I. AGUILERA	32.000	18.000	12.000	--	62.000	81.666	143.666
CASA GRANDE DE CARTAGENA	32.000	--	--	--	32.000	81.666	113.666
F. CONSTANS <sup>(2)</sup>	16.000	9.000	18.000	--	43.000	40.833	83.833
MEDIACION Y DIAGNOSTICOS (2)	32.000	18.000	--	18.000	68.000	81.666	149.666
L. LADA	32.000	--	--	18.000	50.000	81.666	131.666
H. LOPEZ ISLA	32.000	18.000	24.000	--	74.000	81.666	155.666
P. LOPEZ JIMENEZ	32.000	--	--	18.000	50.000	81.666	131.666
J. MONZON	48.000	18.000	--	--	66.000	81.666	147.666
R. MORANCHEL	32.000	18.000	--	--	50.000	81.666	131.666
J. MOYA-ANGELER	32.000	9.000	--	27.000	68.000	81.666	149.666
M. ORIOL	32.000	9.000	24.000	9.000	74.000	81.666	155.666
PART. Y CARTERA DE INVERSION (2)	32.000	--	24.000	--	56.000	81.666	137.666
P. RAMON Y CAJAL	32.000	18.000	--	--	50.000	81.666	131.666
M. SOTO	32.000	--	30.000	9.000	71.000	81.666	152.666
R. SUGRAÑES <sup>(4)</sup>	16.000	9.000	--	--	25.000	40.833	65.833
<b>TOTAL</b>	<b>496.000</b>	<b>144.000</b>	<b>132.000</b>	<b>99.000</b>	<b>871.000</b>	<b>1.225.000</b>	<b>2.096.000</b>
<b>Average Compensation per Director (15 Directors)</b>					<b>58.067</b>	<b>81.666</b>	<b>139.733</b>

(1) Representing Caja Asturias (2) Representing Caja Madrid (3) Director until June 2008 (4) Director since July 2008

Total director compensation received in 2009 represented 0.73% of Net Consolidated Operating Profit and 0.80% of Consolidated Earnings before Taxes according to the annual financial statements prepared by the Board and it represented 0.77% and 0.83% respectively in 2008.

During fiscal 2008 and 2009 no Company stock options were granted to or exercised by any Directors by virtue of their status as members of the Board. At the close of the 2008 and 2009 fiscal years no member of the Board of Directors, qua director, held any options for Company stock.

No Director received during 2009 or 2008 any profit or income by virtue of his or her position as Director other than that described above; neither has the

Company nor any company within its consolidated group undertaken any pension obligations or given any loans or advance payments to any Director.

Directors who are at the same time members of Senior Management of the Company (“Executive Directors”) received additionally their corresponding salaries by virtue of their labor relationship with the Company which, according to the Bylaws, is independent of the compensation they received as Directors. Their salaries are referenced in the following section.

## 2. Compensation Policy, Structure and Level of Compensation of Senior Managers

Compensation of Senior Managers of the Company is determined individually by the Board of Directors based on recommendations made by the Nomination, Compensation and Corporate Governance Committee.

In fiscal 2008, based upon a recommendation by the Nomination, Compensation and Corporate Governance Committee, the Board agreed to review the compensation packages of Senior Managers for a new three-year period, fiscal **2008, 2009 and 2010**. In crafting its proposal, the Nomination, Compensation and Corporate Governance Committee relied in part upon outside advice from the independent firm of experts Mercer, just as it did with Egon Zehnder in 2007 regarding compensation packages. The aim of this review was to assure that the criteria and compensation amounts, as well as other elements that make up a Senior Manager’s employment conditions, are in line at all times with market practices and designed to motivate long term employment and guidance of the Company in a proper and competitive fashion considering the current situation, our corporate culture, and the goals of the Company.

The compensation packages approved by the Board are structured similarly to those of the previous three-year period, with some components of an annual and others of a multiannual nature.

Annual compensation is composed of: a fixed cash component; a variable cash component, which varies depending upon the Senior Manager’s success in meeting annual objectives and a performance assessment carried out on each Senior Manager; and non-cash compensation. The Board requires that fixed compensation remain unchanged for the three year period indicated, unless specific circumstances warrant review. Annual variable compensation is determined at the close of each fiscal year based on the percentage of fixed annual compensation to be received by the Senior Manager for a satisfactory evaluation on the part of the Board in making budget and meeting objectives, as well as their individual management, putting the target value of said percentage between 40% and 2/3rds of the fixed annual compensation referred to.

All medium term compensation is variable, is conditioned upon the recipient’s remaining on the Senior Manager team of the Company during a defined period, and consists of a cash amount determined by Company performance, the

meeting of objectives and a performance evaluation of each Senior Manager, as well as the delivery of shares and stock options.

The following criteria are used in order to determine the terms and amounts of variable compensation: that the variable compensation represent a substantial part of the total compensation; that medium term compensation be an important component; and that its connection to Company stock value be significant, but not excessively so.

During the year 2009 general managers Mr. Piera and Mr. Lucio left the employ of the company, the former having passed away and the latter having terminated his labour relationship. After that, at the end of 2009 the Senior Management was composed of nine members. The list of names is as follows:

NAME	POSITION
Mr. Javier Monzón	Chairman
Mr. Regino Moranchel	CEO
Mr. Javier de Andrés	General Manager - Corporate Control, Purchasing and Logistics Services
Mr. Juan Carlos Baena	General Manager - Finance and Corporate Development
Ms. Emma Fernández	General Manager - Talent, Innovation and Strategy
Mr. Rafael Gallego	General Manager - Operations
Mr. Cristóbal Morales	General Manager - International
Mr. Santiago Roura	General Manager - Operations
Mr. Joaquín Uguet	General Manager - Operations

The President and the Chief Executive Officer are also members of the Board of Directors (“Executive Directors”). Compensation they receive in their capacities as Senior Managers is independent, in accordance with the Bylaws, of the compensation received as Directors. It is on these figures, corresponding to the aforementioned compensation wages, that this second point covers.

Once the relevant assessments were carried out by the Board, the amounts of annual compensation in the years 2009 and 2008 were as follows:

	2009	2008
Fixed compensation	4.990 m€	5.637 <sup>1</sup> m€
Variable compensation	3.510 m€	3.815 m€
Non-cash compensation	273 m€	280 m€
Total compensations Senior Managers	8.773 m€	9.732 m€
Total Senior Managers	11	13
Total average retribution per Senior Manager	798 m€	749 m€

<sup>1</sup> This data has been modified on June 21 because the figure was incorrect.

Of the above amounts, total compensation received both in 2008 and in 2009 by Executive Directors was 1,710m€ each in variable and fixed compensation and total compensation was 3,496m€ in 2009 and 3,487 m€ in 2008. This annual compensation represents 1.22% of consolidated Net Operating Profit (EBITDA) and 1.34% of consolidated Earnings before Tax (EBIT) in fiscal 2009 and it represented 1.29% and 1.39% respectively for fiscal 2008.

As stated earlier, medium term compensation in force during 2008-2010 was established in 2008 and will apply for three years. It consists of a cash incentive, delivery of shares, and granting of stock options.

Medium term cash compensation vests and will be paid in each case once the 2010 fiscal year is closed and a median value fixed for the whole of Senior Management, of twice the annual fixed compensation for a satisfactory evaluation on the part of the Board of the progress of the Company and the performance of each Senior Manager for the period 2008 to 2010, considering the accomplishment of annual objectives and in particular progress toward and achievement of strategic objectives, and taking equally into consideration the relative progress of the Company with respect to the markets in which it operates and of the most important players in the sector. The Company has reserved 3,640€ for this purpose both in 2008 and 2009, of which 1,710€ is destined for Executive Directors.

Medium term compensation is effected through the delivery of stock and concession of options and is limited to a total net value equal to between 10% and 20% of the total gross compensation of each Senior Manager during the period. At the 2008 Meeting the terms and conditions of stock and option delivery were approved with the following conditions: (i) that delivery of shares be carried out in each one of the years 2008, 2009 y 2010, at market value at the time of delivery, the recipient required to maintain ownership of the shares for a 3 year period; and (ii) that options be granted in the first of the three years of the compensation period -- that is, in 2008 -- with the exercise price equal to market value at the time of the concession and the option contract having a term of 3 years and 6 months, the exercise period being 12 months after an exclusion period of 2 years and 3 months from the date of the granting of the options. Pursuant to the above described authorization from the 2008 Meeting, the Board of Directors, acting upon a proposal made by the Nomination, Compensation and Corporate Governance Committee, agreed:

- (i) to make delivery to Senior Managers a total of 47,052 shares (22,405 shares going to Executive Directors) with a value of 15.06€ per share, the market price at the moment of delivery, 30<sup>th</sup> April 2009 (this delivery of stock is part of that made to a group of 150 managers and professionals for a total of 158,659 shares under the guidelines of the *Plan de Acciones 2008-2010* (Stock Plan 2008-2010). During fiscal 2008 Senior Management were given a total of 43,022 shares (of which 19,978 were given to Executive Directors) with a value per share of 16.78€, market price at the time of the shares being delivered, 30<sup>th</sup> September (this delivery of shares was carried out as part of a share delivery made for a group of 150

managers for a total of 143,589 shares under the guidelines of the *Plan de Acciones 2008-2010* (Stock Plan 2008-2010)

- (ii) to make delivery, on 1st October 2008, to senior managers of 934,959 options (463,415 of which corresponding to Executive Directors) on an equal number of Company shares, equivalent to 0.57% of the company's capital stock. The strike price of these options is 16.82€, the market price at the moment of delivery, and was determined by the General Board as the average price of the shares between 27<sup>th</sup> June and 26<sup>th</sup> September 2008.

During fiscal 2008 and 2009, Senior Managers did not exercise any options they had for shares of the Parent company.

The Nomination, Compensation and Corporate Governance Committee has been recommending to the Senior Managers that they acquire Company stock by their own means until they reach and maintain a stable equity position equivalent to at least the Senior Manager's annual fixed compensation. At the end of fiscal 2009, Senior Managers owned 396,692 shares, with a market value on that date equivalent to 1.4 times their combined annual fixed compensation.

The Board, through the Nomination, Compensation and Corporate Governance Committee, has requested an opinion from the independent and highly experienced management appraisal firm Egon Zehnder International regarding the compensation of Senior Management. They declared it "appropriate, with moderate fixed compensation and significant variable compensation as well as a relevant medium term compensation, linked principally to the progress of the business" likewise considering "quite appropriate" their "setting criteria and compensation guidelines for three year periods."

### **3. Other Benefits or Compensation**

Neither members of the Board of Directors nor Senior Managers received during 2009 any benefits or compensation other than those described above, nor did they receive any benefits or compensation other than those described above during 2008, nor does the parent Company or any of the companies in the Group have any contractual obligation to them regarding pensions, loans or advances granted to them.

### **4. Contracts Governing Terms of Employment for Senior Management**

Each Senior Manager has signed a contract with the Company, which governs terms of employment. Each contract has been authorized by the Board of Directors based on a favourable report and proposal by the Nomination, Compensation and Corporate Governance Committee, and were submitted to the 2007 Meeting. Pursuant to these contracts, in the event of termination of employment with the Company Senior Managers have the right, except in the case of voluntary resignation or termination for cause, to compensation

equivalent to that established in Article 56 of the *Estatuto de los Trabajadores* (the Spanish law covering labour matters); that is, 45 days' worth of their annual compensation for each year of employment with the Company, with a limit of 3.5 times annual compensation; in the case of the Chairman and the Chief Executive Officer, minimum compensation is set at three times annual compensation. Additionally, Executive Directors and General Managers of Operations have signed non-competition agreements, with terms of two years from the end of their working relationship with the Company and with a compensatory amount of between 0.5 and 0.75 times their annual compensation for each year of non-competition.

As previously noted, general managers Mr. Javier Piera and Mr. Ángel Lucio left the employ of the company during fiscal 2009, the former having passed away and the latter having terminated his labour relationship. The applicable provisions of their contracts with the Company, which had been approved by the Board of Directors pursuant to a report from the Nomination, Compensation and Corporate Governance Committee, were applied. During 2008, general managers Mr. Otero and Mr. Vilá left the employ of the company.