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**2007 REPORT ON CORPORATE  
GOVERNANCE  
INDRA SISTEMAS, S.A.**

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*May 2008*



## 2007 REPORT ON CORPORATE GOVERNANCE

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## **2007 REPORT ON CORPORATE GOVERNANCE**

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### **1. PRESENTATION**

This Report has been prepared on a voluntary basis by the Board of Directors of the Company and agreed by the Nomination, Remuneration and Corporate Governance Committee, with a view to making available to its shareholders and to markets generally the most important information on Corporate Governance, organised systematically and so as to allow comparative analysis with information provided in previous years, as has been the Company's practice since 2003.

Without prejudice to the foregoing, the Company has also published an Annual Report on Corporate Governance for 2007, as required by the Securities Market Law, in the format established for the purpose by the National Securities Market Commission (CNMV).

The policy of INDRA regarding Corporate Governance has been since 1999 to have a set of rules and practices with the goal not only of complying at all times with applicable regulations, but also of promptly adopting the latest recommendations and best practices in this field.

Applying this policy, and in accordance with the provisions of its own Regulations, the Board of Directors reviews each year the level of compliance with and the efficiency of the Company's Corporate Governance standards and rules. This has resulted in numerous amendments and adaptations to these standards and rules since they were first approved in 1999, in line with legislative changes and new recommendations on Corporate Governance. Full information on all these changes was provided to the corresponding Annual General Meetings of Shareholders.

Following publication by the CNMV of the Unified Code of Good Governance, proposals arising from the process of review of Corporate Governance rules were approved by the Annual General Meeting of Shareholders, amending section 2 of article 30 of the Articles of Association and article 12 of the Regulations of the Annual General Meeting of Shareholders, and providing a new full text (as a revised version), duly ordered and systematised, of the Board Regulations, which was approved by the Board at the end of 2007. The amendments made to the Board Regulations will be reported to the 2008 Annual General Meeting of Shareholders, in accordance with applicable laws.

The Corporate Governance system and norms that INDRA has in place have consistently followed, broadly and in depth, all recommendations of codes of good governance specifically applicable to the Spanish market. Section F of the above-mentioned Annual Report on Corporate Governance, in the format required by the CNMV, lists the degree of compliance with each of the recommendations included in the aforementioned Unified Code.

This report contains detailed information on: the shareholding structure of the Company; the composition, regulation and competencies of its governing bodies; detailed remuneration of members of the Board of Directors and Senior Management; transactions with significant shareholders and Directors; policy and operations as regards own shares; shareholder and market disclosure policy and activities; and the Company's relations with its auditors.

## **2. OWNERSHIP STRUCTURE OF THE COMPANY**

### **2.1. Significant shareholders**

The Company does not have a register showing names of shareholders, so it can only get to know the composition of its shareholding from information provided directly by shareholders to the Company or published in compliance with current regulations on significant shareholdings, and from information provided by Iberclear, which the Company obtains when it holds its Annual General Meetings of Shareholders.

A significant event in 2007 was the capital increase carried out in January, which was fully subscribed and paid up by Unión Fenosa as part of the process of integrating Soluziona's consultancy and IT activities into INDRA. As a result, Unión Fenosa came to have an indirect stake of 11% in the capital of INDRA.

From information sent to the CNMV public registries by shareholders themselves, we know that as at 31.12.07 the following each directly held 3% or more of the capital of INDRA: Unión Fenosa (15%), Caja Madrid (14.83%); Casa Grande de Cartagena (5.68%), and Cajastur (5%).

As at the same date Barclays Bank Plc and Chase Nominees Ltd indirectly held 5.15% and of 5.02% respectively of the capital of INDRA.

As of the date of publication of this Report, there have been no changes in these significant shareholdings in the capital of the Company.

As at 31.12.07, members of the Board of Directors held personally, directly or indirectly, a total of 268,878 share sin the Company, equivalent to 0.16% of the registered capital. At the closing price for INDRA shares at the end of financial year 2007, this holding was equal to 0.2% of the registered capital.

### **2.2. Shareholder agreements**

The Company is not aware of any pacts or agreements among shareholders of the Company aimed at consolidating stakes in the Company or concerted exercise of voting rights or in any other way affecting their interests as shareholders of the Company.

### **2.3. Limitations on shareholders' rights**

There is no stipulation in the Company's Articles of Association, nor in the AGM or Board Regulations or any other rules established by the Company, limiting the acquisition of a significant share in the capital of the Company, the exercise of the corresponding voting rights or the appointment or removal from office of Directors by the Annual General Meeting of Shareholders, except for the requirement included in the Articles of Association regarding the holding of at least one hundred shares in order to be entitled to attend the General Meeting of Shareholders.

### **3. GOVERNANCE AND ADMINISTRATION OF THE COMPANY**

Governance and administration of the Company is carried out by the General Meeting of Shareholders, the Board of Directors and its Committees, and Senior Management.

#### **3.1. General Meeting of Shareholders**

The competences and the regulation of the operation of the General Meeting of Shareholders are contained in the Spanish Public Companies Act, the Articles of Association and the Board Regulations.

The Articles of Association are a faithful reflection of the legal regulations on General Meetings of Shareholders contained in the Spanish Public Companies Act, there being no majority or reinforced quorum requirements other than those stipulated in the Act.

The applicable legal and statutory requirements are included in the Regulations of the General Meeting of Shareholders, together with a number of principles and procedures established by the Company to facilitate informed and active participation by shareholders in the General Meetings, including related actions and facilities for shareholders that go well beyond those required by law. Thus, through these Regulations, the Company aims to provide shareholders with an effective instrument enabling them to become acquainted with all their rights and the way their exercise is regulated.

In accordance with the provisions of the Articles of Association and of the Regulations of the General Meeting of Shareholders, the Company will make adequate arrangements at the 2008 Annual General Meeting of Shareholders for shareholders to be able to exercise their voting and representation rights by electronic means and remote communication, as it has done since 2005.

#### **3.2. Board of Directors**

##### **3.2.1. Regulation and competences**

The composition, faculties, and functioning of the Board of Directors are regulated by law, by the Articles of Association, and specifically by the Board Regulations.

The rules regarding the Board of Directors, contained in the Articles of Association and in the Board Regulations, faithfully reflect those stipulated by law, there being no requirements for reinforced majorities or quorums other than those required by law for reaching any agreements.

The Board Regulations, which were completely revised and updated at the end of 2007, regulate the composition, action principles and operating rules of this body, including a comprehensive list of Directors' rights and duties, aimed at enabling the Board to perform its functions efficiently.

Those Regulations establish as a policy of the Board the delegation of the day to day running of the Company to the executive bodies, concentrating its activity on the general supervision and control function. For that purpose, the

Regulations specifically state that the following responsibilities must be directly exercised by the Board, and thus may not be delegated:

- a)** General strategies of the Company and any specific strategic plans, as well as annual objectives and budgets.
- b)** General risk management policy and the definition of control and information systems appropriate to such policy.
- c)** Policies regarding financing, own shares and shareholders' remuneration.
- d)** The organisational structure of all the Company's various activities.
- e)** Operations involving the acquisition and disposal of the Company's assets and corporate operations whenever they exceed the amount of 30 million euros.
- f)** Related party transactions, in accordance with the provisions of the law and of the Board Regulations.
- g)** The establishment of or acquisition of stakes in special purpose vehicles or entities resident in countries or territories considered as tax havens, as well as any other analogous transactions which could affect or impinge on the transparency of the group.
- h)** Operations whose effect is equivalent to the liquidation of the Company.
- i)** The transformation of the Company into a mere holding company by shifting its businesses and activities into subsidiaries.
- j)** Disclosure and communication policy vis-à-vis shareholders, the markets, and the general public, and specifically:
  - i)** Preparation and approval of the information released each year by the Company together with the Annual Accounts submitted for approval of the General Meeting of Shareholders and
  - ii)** Approval of the financial information that the Company has to publish periodically in accordance with legislation currently in force.
- k)** Proposals for Directors' remuneration and establishment of the resulting amounts in accordance with the Articles of Association and the relevant resolutions of the General Meeting of Shareholders.
- l)** Appointment, terms of employment, including in particular compensation clauses, remuneration, dismissal, and control of senior managers' performance.
- m)** General Corporate Responsibility policies.
- n)** Policies regarding Corporate Governance and the internal operating rules of the Board and its Committees, as well as the evaluation of the quality and efficiency of its operation and actions.

- o) And all other responsibilities specifically contemplated in the Board Regulations.

Without prejudice to the foregoing, the Board will in any case report to the General Meeting of Shareholders any decisions within the scope of its aforementioned competences that might be of particular significance for the conduct of the Company's business, and will submit decisions for approval or ratification by the General Meeting of Shareholders if and when it considers this appropriate.

Also in accordance with the rules set out in the Board Regulations, the Board, based on reports by the Nomination, Remuneration and Corporate Governance Committee, analyses with particular care any situations involving a possible conflict of interest.

In the same way, the Board Regulations regulate in detail the treatment of transactions with related parties, which require authorisation by the Board of Directors, subject to a report from the Nomination, Remuneration and Corporate Governance Committee, except where:

- (i) they are recurring transactions carried out in the ordinary course of business of the Company and executed on market terms, in which case the Board authorises the corresponding generic line of operations;
- (ii) the related party transaction simultaneously meets the following three conditions:
  - a) that they are transactions in the ordinary course of business of the Company;
  - b) that they are executed on market terms; and
  - c) that the amount does not exceed 1% of the consolidated annual revenues of the Company, in the case of transactions with shareholders, or 30% of average annual remuneration per Director in all other cases.

Chapter 5 includes detailed information on related party transactions carried out by the Company during financial year 2007.

### **3.2.2. Composition**

At the same time as the abovementioned capital increase carried out at the beginning of 2007 in the framework of the operation to integrate Soluziona, the Extraordinary General Meeting of Shareholders held for the purpose approved the appointment of two new Owner Directors representing shareholder Unión Fenosa.

The 2007 Ordinary General Meeting of Shareholders also approved the appointment of four new Directors, two of them Owner Directors and two independent Directors.

In view of its shareholder status, Casa Grande de Cartagena was appointed a Director of the Company, and representing the shareholder interest of Caja



Asturias, Administradora Valtenas was also appointed a Director. As indicated in the foregoing section 2.1, these shareholders hold more than 5% of the capital of the Company.

Applying the policy of gradual and progressive renewal of independent Directors, as made public by the Board of Directors, the Board, based on a report by the Nomination, Remuneration and Corporate Governance Committee, proposed the following to the General Meeting of Shareholders, which approved it:

- The cessation, with the express consent of each, of independent Directors Mr. Manuel Azpilicueta and Mr. Juan Carlos Ureta;
- The appointment as independent Directors of Ms. Mónica de Oriol and Mr. Luís Lada to replace the two previously referred to;
- And the cessation, with his express consent, of executive Director Mr. Humberto Figarola, due to the termination in 2007 of his employment by the Company.

As a result, the General Meeting of Shareholders agreed to establish the number of Directors at 15.

Regarding the appointment of the two new independent Directors, both the Board and the Nomination, Remuneration and Corporate Governance Committee specifically analysed both the required professional competence and the particular conditions which candidates should meet in order to hold their positions with dedication and independence.

Following the usual practice of the Company regarding the appointment of new Directors, a training programme for new Directors was implemented, aimed at providing them with a sufficient knowledge of the business and activities of the Company, as well as its organisation and operation, and of the corporate governance rules.

Following these appointments, as at December 31st 2007 the Board consisted of 15 Directors, 13 of whom were outside Directors and two were executive Directors (the Chairman and the Managing Director). As of the date of this Report this composition has not changed.

Of the 13 outside Directors, six are Owner Directors, two of them being associated with shareholder CajaMadrid; another two, with shareholder Unión Fenosa; one with shareholder Casa Grande de Cartagena, and another one with the shareholder Caja Asturias. The remaining seven Directors are independent Directors, one of them being the Vice-chairman, in accordance with the Board Regulations.

Total Directors	6	<b>15</b>
➤ Owners		
External Directors		<b>13</b>
➤ Independent		7

The full list of Directors is as follows:

Name	Position	Type
Mr. Javier Monzón	Chairman	Executive
Mr. Matías Amat <sup>(1)</sup>	Vice-chairman	Significant shareholder (Caja Madrid)
Mr. Pedro López Jiménez	Vice-chairman	Significant shareholder (Unión Fenosa)
Mr. Manuel Soto	Vice-chairman	Independent
Mr. Regino Moranchel	Managing Director	Executive
Ms. Isabel Aguilera	Director	Independent
Mr. Francisco Constans	Director	Independent
Mr. Felipe Fernández <sup>(2)</sup>	Director	Significant shareholder (Caja Asturias)
Mr. Luís Lada	Director	Independent
Mr. Honorato López Isla	Director	Significant shareholder (Unión Fenosa)
Mr. Joaquín Moya-Angeler	Director	Independent
Ms. Mónica de Oriol	Director	Independent
Mr. Pedro Ramón y Cajal	Director	Independent
Mr. Estanislao Rodríguez-Ponga <sup>(3)</sup>	Director	Significant shareholder (Caja Madrid)
Mr. Eusebio Vidal-Ribas <sup>(4)</sup>	Director	Significant shareholder (Casa Grande C.)

(1) On behalf of Mediación y Diagnósticos, S.A.

(2) On behalf of Administradora Valtenas, S.L.

(3) On behalf of Participaciones y Cartera de Inversión, S.L.

(4) On behalf of Casa Grande de Cartagena, S.L.

Since the Chairman of the Board is also the chief executive of the Company, the Vice-chairman of the Board, elected from among the independent Directors, has faculties to coordinate these Directors, to call Board meetings and to place items on the agenda of the meetings, as well as to send information to the

Directors. He also chairs the Board when it deals with the annual evaluation of its Chairman.

The six Owner Directors hold important positions in their respective organisations:

- Mr. Matías Amat, age 55, is an economist, with broad experience in the financial sector. He worked at Citibank for twelve years, both in Spain and in Latin America, where he was the General Manager of the bank in Mexico. He was Managing Director of S. G. Warburg in Spain for three years and Financial General Manager of Caja Madrid for ten years. He is currently General Manager, Business with Caja Madrid and a Director of NH Hoteles, S.A., Mapfre Caja Madrid Holding de Entidades Aseguradoras S.A., and Attijariwafa Bank of Morocco.
- Mr. Felipe Fernández, age 55, has a degree in Economic Science and Business Studies from the University of Bilbao. He began his career as a professor at the University of Oviedo, later occupying various positions of responsibility in the Government of the Principality of Asturias. He also held a number of different management positions in Hidrocantábrico, and was Chairman of Gas de Asturias. Since January 2004 he has been General Manager of Caja de Ahorros de Asturias and a Director of Infocaja, Ahorro Corporación and Hidrocantábrico Energía.
- Mr. Honorato López Isla, age 61, obtained a Civil Engineering Degree from the Escuela Técnica Superior de Madrid and a degree in Senior Management (PDG) from IESE Business School. With Unión Fenosa since 1972, he has been General Sub-manager of the Information Systems, Telecommunications and Technical Secretariat departments, Managing Director of Unión Fenosa Distribución, S.A., Chairman of Soluziona, and Chairman of R Cable y Telecomunicaciones Galicia S.A. He is currently Managing Director and first Vice-chairman of Unión Fenosa. Besides being a member of the Circle of Businessmen, he also belongs to the Latin American Business Observatory and is Chairman of the APD (Association for Management Progress) in the Northwest area.
- Mr. Pedro López Jiménez, age 65, is a Civil Engineer and a graduate of the IESE Business School Senior Company Management Programme. He has been Chairman of Endesa, General Manager for Harbours in the Sub-secretariat of the Ministry of Public Works and Urban Planning, and a Director of Unión Fenosa and Enher. He was also a Director of the National Industry Institute (INI), Director and General Manager of Empresarios Agrupados, and Construction Manager for Centrales Térmicas (power stations). He is a founding member of the CEOE and a member of its first executive Committee, and founder and first chairman of the FEIE (Business Federation of the Electric Industry). He is currently a Director and a member of the Executive Committee of

ACS Actividades de Construcciones y Servicios, S.A., Vice-chairman of Dragados S.A. and Chairman of Unión Fenosa.

- Mr. Estanislao Rodríguez-Ponga, age 52, is an economist, and was a National Tax Inspector from 1982 until 1989. He has held various executive positions in companies, financial institutions and public entities, his long and varied experience in government having included the positions of Secretary of State for the Treasury and Chairman of the Spanish Government Lottery and Gaming Commission and of the National Tax Agency (AEAT). He is currently the Vice-chairman of Caja Madrid and sits on the Boards of a number of other companies. He is also a member of the Spanish General Council of Colleges of Economists.
- Mr. Eusebio Vidal-Ribas, age 54, has a degree in Economic Science from the University of Barcelona, and several professional qualifications from US trading organisations. He began his career with Merrill Lynch, later occupying various management positions in companies in the financial sector such as Benito y Monjardin, Banco Urquijo, and Metlife. He is currently a Director and General Manager of Casa Grande de Cartagena S.L., which he joined in 2003 as Investment Manager.

The seven independent Directors are highly reputed professionals with wide business experience, with no ties to significant shareholders or to the Company's management team. Their professional profiles are as follows:

- Ms. Isabel Aguilera Navarro, age 47, is an architect, with an MBA from the Instituto de Empresa and a General Management Programme diploma from the IESE Business School. She has pursued her career in various information technology companies such as Olivetti, Compaq, Hewlett Packard, Airtel (Vodafone), Dell, where she was Chairman and chief executive for Spain, Portugal and Italy, NH Hoteles, where she was General Manager, and Google Inc., where she was also General Manager for Spain and Portugal until December 2007. She is currently an independent Director of Laureate Universities Inc. in the USA.
- Mr. Francisco Constans Ros, age 72, is an economist and has held various important executive positions in financial companies and institutions, and a long career with Grupo Planeta, where he was Managing Director from 1983 to 2002. He is currently on the boards of several companies.
- Mr. Luís Lada Díaz, age 58, is a telecommunications engineer with a long career in the Telefónica Group, where he has been Chairman of Telefónica Móviles and Telefónica de España. He has also been a Director and leading member of numerous companies and forums relating to the IT sector. He is Advisor to the Chairman and the Executive Committee of Telefónica, a Director of Telefónica Latinoamérica, Telefónica O2 Czech Republic, and of other companies.

- Mr. Joaquín Moya-Angeler Cabrera, age 58, who has a degree in mathematics and an MBA from Massachusetts Institute of Technology (MIT), spent a large part of his professional career with IBM, which he joined in 1977, taking charge of various activities, both operational and supervisory, in for Spain, Europe and Saudi Arabia, being Chairman of IBM Spain from 1991 to 1994. From 1994 to 1997, he was Chairman of the Leche Pascual Group, and from 1999 to 2002 Chairman of Meta4. Currently, he is Chairman or Director of and investor in various European and American companies.
- Ms. Mónica de Oriol de Icaza, age 46, has a doctorate in economic sciences and business studies from the Complutense University of Madrid, and a London School of Economics degree. For many years she has successfully combined her business career with her teaching activities as a professor at the Complutense University of Madrid, in the University Studies Centre (CEU) and at Saint Louis University in the US. She is the founder (1989), Chairman and main shareholder of Grupo Seguriber.
- Mr. Pedro Ramón y Cajal Agüeras, age 55, has a degree in Law and is a public prosecutor currently on leave. He has wide experience in the practice of administrative and mercantile law. He was General Sub-manager for Resources in the Ministry of the Treasury. Since 1994, he has been a partner in the law firm Ramón y Cajal Abogados. He also currently sits on the boards of various companies.
- Mr. Manuel Soto Serrano, age 68, is an economist, and was the Chairman of the World Council of Partners of Arthur Andersen, and one of its international managing partners. He is currently Vice-chairman of Banco Santander and a Director of Corporación Financiera Alba.

In order to ensure that the Secretariat and Committees of the Board of Directors perform independently and adequately, it has been the Company's policy to appoint as Secretary a reputable lawyer who is not employed by the Company and with no connections other than with the Board of Directors itself. During 2007, Advocate Daniel García-Pita Pemán continued to perform the role of Secretary of the Board.

### **3.2.3. Annual check on Directors' continuing status**

In accordance with the provisions of the Board Regulations, in the last two financial years the Nomination, Remuneration and Corporate Governance Committee carried out a review of the current status of each of the Directors, concluding that all Directors - and in particular those designated as independent - had maintained their status unchanged during 2006 and 2007, and continued to maintain it as at the date of this Report.

### **3.2.4. Directors' years of service and criteria for renewal of the Board**

Directors' years of service are as shown in the following table:

	Years of service	Yr. last appointed
<b>Independent Directors <sup>(1)</sup>:</b>		
Ms. Isabel Aguilera	3	2005
Mr. Francisco Constans	9	2005
Mr. Lu�s Lada	1	2007
Mr. Joaqu�n Moya-Angeler	9	2005
Ms. M�nica de Oriol	1	2007
Mr. Pedro Ram�n y Cajal	9	2005
Mr. Manuel Soto	9	2005
<b>Shareholder Directors</b>		
Mr. Mat�as Amat <sup>(2)</sup>	1	2005
Mr. Estanislao Rodr�guez-Ponga <sup>(3)</sup>	1.5	2006
Mr. Pedro L�pez Jim�nez <sup>(4)</sup>	1.5	2007
Mr. Honorato L�pez Isla <sup>(5)</sup>	1.5	2007
Mr. Eusebio Vidal-Ribas <sup>(6)</sup>	1	2007
Mr. Felipe Fern�ndez <sup>(7)</sup>	1	2007
<b>Executive Directors <sup>(8)</sup>:</b>		
Mr. Javier Monz�n	15.5	2005
Mr. Regino Moranchel	7	2005

(1) The Articles of Association set the term of tenure for Directors at three years. The independent Directors appointed by the General Meeting of Shareholders in 1999 on the occasion of the Company's IPO were re-elected in 2002 and again in 2005 by the AGM, in accordance with proposals by the Board based on favourable reports of the Nomination, Remuneration and Corporate Governance Committee, and are now in their third term of office.

(2) & (3) On behalf of Mediaci n y Diagn sticos, S.A. and Participaciones y Cartera de Inversi n, S.L. respectively, both of which are subsidiaries of Caja Madrid, which has had two appointees on the Board since 1999. Years of service shown are those applying to the natural person.

(4) & (5) On behalf of Uni n Fenosa

(6) On behalf of Casa Grande de Cartagena, S.L.

(7) On behalf of Administradora Valtenas, S.L.

(8) Their re-election in 2002 and 2005 was approved by the General Meeting of Shareholders, as proposed by the Board based on a favourable report by the Nomination, Remuneration and Corporate Governance Committee.

The nomination and re-election of Directors in 2005 and 2007 took place by means of individual ballot, and the General Meeting of Shareholders approved the appointment of each of them with over 98% of votes in favour.

In accordance with the principle established in article 22 of the Board Regulations regarding periodical renewal of the Board's composition, the Board of Directors agreed at the beginning of 2005 to apply the following principles, based on recommendations of the Nomination, Remuneration and Corporate Governance Committee: that independent Directors should not serve more than four consecutive statutory three-year terms, save for justified exceptions; and that the renewal process should take place in a gradual and progressive way.

The application of these principles began at the Annual General Meeting of Shareholders of 2005, where the appointment of Ms. Isabel Aguilera to fill the position of former independent Director Mr. Moya Francés was agreed, and continued in 2007 with the appointment of Ms. Mónica de Oriol and Mr. Luís Lada to replace Mr. Manuel Azpilicueta and Mr. Juan Carlos Ureta.

In addition, at the beginning of his current term of office, Mr. Francisco Constans stated his wish not to be reappointed at the end of it, and the Board consequently proposes to the 2008 AGM the appointment of a new independent Director to replace him. Furthermore, the other three independent Directors appointed in 1999, whose re-election is proposed to this Annual General Meeting of Shareholders, will resign during the course of the statutory term that begins after the 2008 AGM.

### **3.2.5 Gender diversity policy**

Since before 2005, when appointing new Directors, particularly independent Directors, the Board has paid special attention to bringing about greater gender diversity in the Company's governing bodies. In this regard, the Board Regulations, in articles 9.4 and 20.4, establish that the Board and the Nomination, Remuneration and Corporate Governance Committee shall take special care to see that in selecting people to perform the role of Director, principles and policies applied are geared towards ensuring appropriate gender diversity among Board members.

The application of these principles began in 2005 with the aforementioned appointment of Ms. Isabel Aguilera as an independent Director, and continued in 2007 with the appointment, also as an independent Director, of Ms. Mónica de Oriol. The candidate proposed to the 2008 Annual General Meeting of Shareholders for appointment as a new Director, is also a woman.

If this appointment is approved, three (75%) of the four new appointments of independent Directors that have taken place since 2005 (and in fact since the Company's IPO in 1999) will have been of women. These three female Directors would represent 20% of the total number of Directors, 23% of outside Directors (independent plus shareholder), and 43% of independent Directors, which is the category in which the Board is best able to bring gender diversity policies to bear.

It should be borne in mind that, in the case of the executive Directors, the Chairman and Managing Director have remained unchanged throughout this period, and that both are men. As far as Owner Directors are concerned, the Board and the Nomination, Remuneration and Corporate Governance Committee can only recommend to shareholders that they consider designating women for the post of Director of INDRA to represent their shareholder's interests, and even this depends on there being women at the top level of their respective organisations, since it is in the Company's interest that Owner Directors be at that level. It is in the area of independent Directors that the Board and the Nomination, Remuneration and Corporate Governance Committee are better able to act, since they can consider a far wider selection of potential female candidates to fulfil the role of Director.

*In relation to this section and the preceding one, attached hereto as an Appendix is the supporting information that the Board will make public regarding the proposal for appointment and re-election of Directors submitted to the 2008 Annual General Meeting of Shareholders.*

### **3.2.6. Committees of the Board of Directors**

In accordance with the provisions of the Board Regulations, the Board has established, with a view to its working more effectively, an Executive Committee, an Audit and Compliance Committee, and a Nomination, Remuneration and Corporate Governance Committee, whose regulations and competences, composition and activities are detailed in the following sections.

In each meeting of the Board of Directors, the Committee Chairmen inform the Board of the issues that have been dealt with and the decisions taken by their respective Committees.

Applying the principle established in article 17.2 of the Board Regulations, since 1999 the Board has endeavoured to achieve a reasonable rotation of independent Directors on its various Committees.

Thus, following the appointment of new Directors approved by the General Meeting of Shareholders of 2007, as mentioned earlier, the Board of Directors, in accordance with a proposal made by the Nomination, Remuneration and Corporate Governance Committee, agreed a new composition of its Committees. Following these changes, of the four independent Directors who have been in office since 1999, two have belonged at one time or another to all three Board Committees and the other two have sat on the Executive Committee and the Nomination, Remuneration and Corporate Governance Committee.

### **3.2.7. Activity during the year and evaluation of its operation**

In order to perform such of its functions as can not be delegated, and to monitor the work of the Committees, the Board held twelve meetings in the course of the financial year 2007, applying the principles established in this regard following the evaluation of the operation of the Board carried out in 2005.



In each of the meetings, the Board monitors the Company's business and financial evolution, that of transactions with own shares and, and of matters dealt with in the Board Committees and their actions. In three of its meetings in the course of the year 2007, the Board specifically dealt with the main issues relating to the future development and growth strategy, analysing the market and sector environment.

For all issues to be dealt with, ample information is made available to Directors sufficiently in advance of the meeting. Total time devoted by Directors was in the order of 1,200 hours for the year, rising to 1,760 hours if time spent on Committees is included. Attendance rates for Board and Committee meetings overall exceed 85%, with the following breakdown of attendance at meetings of each body: Board 88.9%; Executive Committee 88.6%; Audit and Compliance Committee 72.5%; and Nomination, Remuneration and Corporate Governance Committee 77.2%.

In all cases where a Director has not been able to attend personally, that Director has delegated his or her representation in another Director having the same status, indicating how to vote on the agenda items.

In general, Directors keep the Nomination, Remuneration and Corporate Governance Committee regularly informed of their other professional obligations, so that the Committee can assess whether such obligations are compatible with the dedication required of Directors.

In accordance with the provisions of the Board Regulations, the Board of Directors carries out an annual assessment of its own operation and of the quality of its work and that of its Committees. For these purposes, each of these bodies carries out a self-assessment, and produces a report on its activities and actions during the financial year, which is submitted to the Board.

To carry out the assessment for 2007, the Board of Directors did not consider it necessary to resort once more to external advice, as had been the case in 2005, being of the opinion that the participation of external consultants in this process is efficient, in a company with the experience and history of INDRA in this area, if carried out periodically (every two or three years or whenever changes in circumstances render it advisable). The evaluation was carried out using a formal process to assess multiple aspects relating to the composition and operation of the Board and its Committees and to the effectiveness of its actions and the contribution of its members, under the coordination and supervision of the Chairman of the Board and of the Chairmen of the Audit & Compliance Committee and the Nomination, Remuneration and Corporate Governance Committee.

The evaluation carried out took into account 72 variables, structured in six areas: Structure and composition of the Board; Committees of the Board; Operation of the Board; Executive Committee, Audit and Compliance Committee; and Nomination, Remuneration and Corporate Governance Committee, which were individually assessed by each Director. Directors' opinions were treated as confidential. An equally confidential report was also prepared, with the different assessments and comments of Directors. This report and its conclusions were

presented by the Chairman of the Nomination, Remuneration and Corporate Governance Committee to the Board of Directors in its meeting of March 13th 2008.

The Board of Directors carried out an in-depth analysis of the findings of this report, and concluded with a positive assessment of Directors' dedication, attendance and availability, of the workings of the Board and its Committees and of the quality of its actions during 2007, while also recommending specific actions in areas identified as leaving room for improvement.

Also in accordance with the provisions of the Board Regulations, the Board carried out an evaluation of the Chairman in his capacity as such. This evaluation is separate from and independent of the assessment also made of him in his capacity as chief executive. The Chairman did not attend these meetings, which were chaired by a Vice-chairman designated from among the independent Directors.

For the evaluation of the Chairman of the Board for the year 2007, chaired by a Vice-chairman designated from among the independent Directors, the Nomination, Remuneration and Corporate Governance Committee and the Board took particular account of aspects relating to the functions of the Chairman contained in the questionnaire for the Board evaluation referred to above, especially the following:

- (i) performance of the role of Chairman of the Board in a sufficiently differentiated manner from that of chief executive;
- (ii) leadership enabling the Board to perform its functions and competences effectively, ensuring that matters contemplated in the Board Regulations and such other important matters as may be appropriate, are submitted for his consideration with proper supporting information;
- (iii) promotion of active participation by Directors, analysis and debate to reach an adequate understanding of the issues dealt with and the adoption of decisions on well-founded criteria;
- (iv) promotion of investor and shareholder relations and disclosure and transparency policies.

Based on the evaluation carried out, the Board concluded with a very positive assessment of the performance of the Chairman of the Board, finding that he had complied at all times with the provisions of the Board Regulations, and pointing in particular to his efforts in maintaining open and transparent communication with markets, investors and shareholders, ensuring that Board meetings were held dynamically, with ample information, encouraging debate and looking at the most important issues in real depth, ensuring that conclusions were reached and decisions taken. They also praised his move to have the Board pay increasing attention to strategic matters, which should continue in the current financial year along with improving acquaintance with the management team.

### **3.3. Executive Committee**

#### **3.3.1. Regulation and competences**

The composition, faculties, and operation of the Executive Committee have been regulated, since its establishment in 1999, by the Board Regulations, according to which all faculties of the Board that are capable of being delegated, except those indicated in the foregoing section 3.2.1 of this document, have been delegated to this Committee.

Its main function is to ensure the continuous monitoring of the Company's business and operations, for which purpose it generally holds its ordinary meetings once a month.

#### **3.3.2. Composition**

In accordance with the Board Regulations, the composition of the Executive Committee should reasonably reflect that of the Board. In 2007 it comprised eight members, six of them outside Directors (four of whom were independent Directors) and two executive Directors. The list of names of the members of the Committee following the appointment of new Directors agreed by the 2007 Annual General Meeting of Shareholders is as follows:

Name	Position	Type
Mr. Javier Monzón	Chairman	Executive
Ms. Isabel Aguilera	Member	Independent
Mr. Matías Amat	Member	Shareholder (Caja Madrid)
Mr. Francisco Constans	Member	Independent
Mr. Honorato López Isla	Member	Shareholder (Unión Fenosa)
Ms. Monica de Oriol	Member	Independent
Mr. Regino Moranchel	Member	Executive
Mr. Pedro Ramón y Cajal	Member	Independent

#### **3.3.3. Activity during the financial year**

In performing its functions, the Executive Committee met eleven times in the course of 2007. All documentation prepared for each meeting, together with the corresponding minutes, are placed at Directors' disposal before each Board meeting. In the course of 2007 the Committee dealt with 323 operational matters, with an aggregate value of €1,602m.

### **3.4. Audit and Compliance Committee**

#### **3.4.1. Regulation and competences**

The composition, faculties, and operation of the Audit and Compliance Committee, which was created in 1999, are regulated by the Articles of

Association and by the Board Regulations, and comply with the express requirements of the law.

Its main functions are:

- a. to supervise the preparation process and integrity of financial information relating to the company and, where applicable, the group, reviewing compliance with regulatory requirements, the appropriate delimitation of consolidation criteria and the correct application of accounting principles.
- b. periodically to review internal control and risk management systems so as to ensure that the main risks are properly identified, managed and reported.
- c. to maintain a watching brief on the independence and effectiveness of the internal audit function; to propose the selection, appointment, re-election, and dismissal of the person in charge of the internal audit service; to propose the budget for this service; to receive periodic information on its activities; and to verify that senior management takes account of the conclusions and recommendations of its reports.
- d. to establish and supervise a mechanism which allows employees confidentially, and if necessary anonymously, to report any potentially significant irregularities, particularly financial and accounting ones, that come to their notice in the Company.
- e. to submit to the Board proposals for the selection, appointment, re-election or replacement of the external auditor, and the relevant contractual terms.
- f. to receive regular information from the external auditor on the audit plan and its results, and to ensure that senior management takes account of the auditor's recommendations.
- g. to ensure the independence of the external auditor.
- h. as regards groups, to help the group auditor assume responsibility for the audits of the companies which make up the group.
- i. to inform the General Meeting of Shareholders of matters within its competence.

#### **3.4.2. Composition**

In accordance with the Articles of Association and the Board Regulations, the Audit and Compliance Committee must comprise exclusively outside Directors. It currently has five members, three of whom are independent Directors. As required by the Board Regulations, its Chairman is one of the independent Directors, and his maximum term of office is four years, although he may be re-elected after one year has elapsed since the end of his previous term. In application of this rule, in March 2007 the Committee appointed a new Chairman from among its members. In electing the Chairman, particular account was taken of his knowledge and experience of matters that are the specific competence of the Committee, backed up by substantial professional experience in financial and supervisory

management of a large business group. The list of names of members of the Committee following the appointment of new Directors agreed by the 2007 Annual General Meeting of Shareholders is as follows:

Name	Position	Type
Mr. Francisco Constans	Chairman	Independent
Mr. Honorato López Isla	Member	Shareholder (Unión Fenosa)
Ms. Mónica de Oriol	Member	Independent
Mr. Estanislao Rodríguez-Ponga	Member	Shareholder (Caja Madrid)
Mr. Manuel Soto	Member	Independent

### **3.4.3. Activity during the financial year**

In performance of its functions, the Committee met nine times in the course of 2007, preparing an Action Plan for the year, as well as an Annual Report of its activities, which it submitted to the Board of Directors. The Annual Report of its activities for the year 2007 will, as in previous years, be made available to shareholders, investors, and the general public through the Company's website and its Shareholders' Office. All documentation prepared for each meeting, together with the corresponding minutes, are placed at Directors' disposal before each Board meeting.

## **3.5. Nomination, Remuneration and Corporate Governance Committee**

### **3.5.1. Regulation and competences**

The composition, faculties, and operation of the Nomination, Remuneration and Corporate Governance Committee have been regulated, since its establishment in 1999, by the Board Regulations.

Its main functions are:

- a) To advise on the composition of the Board of Directors, the professional profiles required for the Board, and criteria for selecting its members, taking care to see that the selection procedures incorporate criteria that favour gender diversity in the composition of the Board.
- b) To evaluate whether the knowledge, abilities, and experience of individuals proposed as members of the Board and of the various Committees meet the required profiles, and whether requirements for the specific type of Director in question are met.
- c) To submit to the Board reports on succession plans for the posts of Chairman and chief executive, and to supervise succession plans for senior managers.
- d) To advise the Board on proposals for appointment and dismissal of senior managers, and, subject to prior approval by the Board, on their

terms of remuneration and terms and conditions of their employment contracts with the Company, including compensation clauses in the event of termination of employment.

- e) To submit to the Board, prior to re-election of Directors, a report on the performance to date of the Directors involved.
- f) To verify each year that the status of each Director remains unchanged since the date of his appointment, and to include this in the Annual Report on Corporate Governance.
- g) To present proposals to the Board, within limits established by the Articles of Association and by resolutions of the General Meeting of Shareholders, regarding the system, components, and amounts of Directors' remuneration.
- h) To present to the Board a report on the annual assessment of the Chairman of the Board and the performance of senior managers.
- i) To propose, for approval by the Board, the annual report on remuneration policy for submission by the Board to the General Meeting of Shareholders, in accordance with the stipulations of article 29 of the Board Regulations, as well as information on remuneration published by the Company.
- j) To advise the Board in advance on all transactions with related parties - Directors, significant shareholders, shareholders represented on the Board, senior managers, or persons related to any of the foregoing - which are submitted for the Board's approval.
- k) To evaluate annually the efficiency of, and the degree of compliance with the Company's rules and procedures on Corporate Governance, proposing such amendments thereto as it may deem appropriate.

### **3.5.2. Composition**

In accordance with the stipulations of the Board Regulations, the Nomination, Remuneration and Corporate Governance Committee consists exclusively of outside Directors, who are five in number, independent Directors constituting the majority. Its Chairman is also an independent Director. The list of names of its members following the appointment of new Directors agreed by the 2007 Ordinary General Meeting of Shareholders is as follows:

Name	Position	Type
Mr. Joaquín Moya-Angeler	Chairman	Independent
Mr. Matías Amat	Member	Shareholder (Caja Madrid)

Mr. Luís Lada Lada	Member	Independent
Mr. Pedro López Jiménez	Member	Shareholder (Unión Fenosa)
Mr. Manuel Soto	Member	Independent

### 3.5.3 Activity during the year

In order to carry out its functions, the Nomination, Remuneration and Corporate Governance Committee met nine times in the course of 2007, preparing an Action Plan for the year 2007, as well as an Annual Report on its activities, which it presented to the Board of Directors. All documentation prepared for each meeting, together with the corresponding minutes, are placed at Directors' disposal before each Board meeting.

### 3.6. Senior Management

The Company's Senior Management holds the highest responsibility regarding the day-to-day management of the Company and of its group of companies. All management units, whether operational or support, depend on and report to Senior Management.

In January 2007, as was disclosed by means of a significant event notice, following the integration operations of Azertia and Soluziona, the Board agreed, based on a favourable report from the Nomination, Remuneration and Corporate Governance Committee, to appoint five new General Managers. At the end of year 2007, the Executive Vice-chairman ceased to work for the Company.

At the end of 2007, Senior Management thus comprised thirteen members, and its composition remains unchanged as at the date of this report. The list of names is as follows:

Name	Position
Mr. Javier Monzón	Chairman
Mr. Regino Moranchel	Managing Director
Mr. Javier de Andrés	General Manager, Corporate Control
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. Ángel Lucio	General Manager, Logistics Services and BPO

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Mr. Cristóbal Morales	General Manager, International
Mr. José María Otero	General Manager and Deputy Managing Director
Mr. Javier Piera	General Manager, Operations
Mr. Santiago Roura	General Manager, Operations
Mr. Joaquín Uguet	General Manager, Operations
Mr. Josep María Vilà	General Manager and Deputy Managing Director

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## **4. REMUNERATION OF DIRECTORS AND SENIOR MANAGERS**

### **4.1. Directors**

In accordance with the provisions of article 127 of the Articles of Association, Directors' remuneration consists of a fixed allowance, the maximum amount of which is determined by the Annual General Meeting of Shareholders, and a share in the profits of the Company. It may also consist of the allocation of shares or share options, subject to prior agreement of the Annual General Meeting of Shareholders.

The Board of Directors is empowered by the Articles of Association to distribute among its members the overall compensation established by the General Meeting of Shareholders.

In 2005, with outside advice from Spencer Stuart, a firm of independent experts, the Board prepared a proposal for submission to the 2005 Annual General Meeting of Shareholders, which agreed to keep the Board's overall fixed allowance for each of the financial years 2005, 2006 and 2007 at a maximum amount of €600,000 (as it had been since 2002), and to limit the share in profits, fixed by the Articles of Association at 1% of net consolidated profits, to a maximum of 1.4 times the amount of the fixed allowance, establishing that 50% of its gross amount be received by the Directors by way of allocation of shares in the controlling Company. This proposal, approved by the Annual General Meeting of Shareholders, was based on a Board comprising twelve members. These criteria implied an average amount per Director of €50,000 p.a. by way of fixed allowance, and €70,000 p.a. by way of profit sharing. In preparing its proposal, the Board sought to set remuneration at an appropriate level, that would provide an incentive and reflect the dedication required and the responsibility vested in the position, whilst at the same time not being so high as to risk compromising the independence of independent Directors.

In 2007, the Annual General Meeting of Shareholders resolved to increase the number of Directors to 15, agreeing also to adjust the total amount of the Board's remuneration to the new number of Directors, and thus increasing the maximum amount of the annual fixed allowance to €750,000 and maintaining the limit of 1.4 times this amount, i.e. €1,050,000, for the maximum amount of profit sharing. However, since in the first half of financial year 2007 there were only fourteen Directors, the AGM exceptionally established the maximum amount of the fixed allowance for that year at €725,000 and the limit for profit sharing at 1.4 times that amount, or €1,015,000.

As agreed by the Board of Directors, which is empowered by the Articles of Association to distribute the overall compensation fixed by the AGM among its members, distribution among Directors since 2005 has been as follows.

- (i) Fixed allowance of €27,000 for membership of the Board of Directors, €15,000 for belonging to the Executive Committee, €20,000 for being a member of the Audit and Compliance Committee and €15,000 for being on the Nomination, Remuneration and Corporate Governance Committee, with the Chairmen of each Committee – except in the case of the Executive Committee – receiving an amount equal to 1.5 times the amounts indicated.
- (ii) Profit sharing is distributed equitably among Board members, in proportion to effective time in the position during the financial year.

The Board has agreed year by year that, in the event of non-achievement of the growth and profitability objectives announced publicly in each financial year, it would reconsider the amount of profit sharing, and bring any resulting proposals before the AGM. This condition has not been applicable in any of the financial years since this statutory remuneration was first fixed in 1999, the Company having fulfilled or exceeded its publicly announced objectives in each financial year.

Since 2005, when it was established by the AGM, the aforementioned limit of 1.4 times the fixed allowance for profit sharing has been applicable; and according to the annual accounts, such is also the case for the financial year 2007.

This remuneration is compatible with and independent of salaries received by executive Directors deriving from their employment with the Company.

In 2007 by way of fixed allocation, members of the Board received, altogether, a total of €725,000 distributed in accordance with the abovementioned criteria.

Profit sharing for the year 2007 amounted to an overall total of €1,015,000, according to the Annual Accounts submitted to the General Meeting of Shareholders for approval and after applying the aforementioned limit established by the General Meeting of Shareholders. Of this gross amount, 50% will be received in the form of shares in the Company, the number of which will be determined depending on their market price on the payment date of the dividend for 2007, and the rest, after withholding tax on the full amount of the share in profits, in cash. The Directors have undertaken to retain ownership of such shares as they may receive as payment for share in profits throughout the whole time that they remain in office.

During year 2007, as in 2003, 2004, 2005 and 2006, no share options have been granted to Directors.

In accordance with the foregoing, for each of the headings indicated, the individual breakdown of total remuneration accruing to members of the Board of Directors during the 2007 financial year, in their capacity as Directors of the Company, is as shown in the following table:

DIRECTORS' REMUNERATION (€ 2007)							
DIRECTOR	FIXED ALLOWANCE				FIXED ALLOWANCE	PROFIT SHARING (50% in shares)	TOTAL
	BOARD	EXECUTIVE COMMITTEE	AUDIT AND COMPLIANCE COMMITTEE	NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE			
ADM. VALTENAS <sup>(1) (3)</sup>	13,500	--	--	--	13,500	35,000	48,500
I. AGUILERA	27,000	15,000	--	--	42,000	70,000	112,000
M. AZPILICUETA <sup>(4)</sup>	13,500	7,500	--	7,500	28,500	35,000	63,500
CASA GRANDE DE CARTAGENA <sup>(3)</sup>	13,500	--	--	--	13,500	35,000	48,500
F. CONSTANS	27,000	15,000	28,333	--	70,333	70,000	140,333
H. FIGAROLA <sup>(4)</sup>	13,500	--	--	--	13,500	35,000	48,500
MEDIACION Y DIAGNOSTICOS SA <sup>(2)</sup>	27,000	15,000	--	15,000	57,000	70,000	127,000
L. LADA <sup>(3)</sup>	13,500	--	--	7,500	21,000	35,000	56,000
H. LOPEZ ISLA	27,000	7,500	20,000	--	54,500	70,000	124,500
P. LOPEZ JIMENEZ	27,000	7,500	--	15,000	49,500	70,000	119,500
J. MONZON	40,500	15,000	--	--	55,500	70,000	125,500
R. MORANCHEL	27,000	15,000	--	--	42,000	70,000	112,000
J. MOYA-ANGELER	27,000	--	--	22,500	49,500	70,000	119,500
M. ORIOL <sup>(3)</sup>	13,500	7,500	10,000	--	31,000	35,000	66,000
PARTICIPACIONES Y CARTERA DE INVERSIÓN SL <sup>(2)</sup>	27,000	--	20,000	--	47,000	70,000	117,000
P. RAMON Y CAJAL	27,000	15,000	--	--	42,000	70,000	112,000
M. SOTO	27,000	--	21,667	15,000	63,667	70,000	133,667
J.C. URETA <sup>(4)</sup>	13,500	--	10,000	--	23,500	35,000	58,500
<b>TOTAL</b>	<b>405,000</b>	<b>120,000</b>	<b>110,000</b>	<b>82,500</b>	<b>717,500</b>	<b>1,015,000</b>	<b>1,732,500</b>
<b>Average remuneration per Director (14.5 Directors)</b>					<b>49,500</b>	<b>70,000</b>	<b>119,500</b>

(1) Representing Caja Asturias      (2) Director since July 2007      (3) Director until June 2007

(\*) 50% of the indicated amount will be paid out in shares. In 2006, the payment in shares of 50% of the amount corresponding to profit sharing meant the allocation to Directors of 1,892 shares of the Company per Director.

Total remuneration as indicated, accrued to members of the Board of Directors as a whole represents 0.77% of the net consolidated operating result, and 0.82% of pre-tax consolidated results of the Company for the financial year 2007.

Members of the Board of Directors, in their capacity as Directors, did not exercise any options on shares of the Company during 2007, nor were they holders of any such options as at 31.12.07.

The Board of Directors is submitting a remuneration proposal for the Board for years 2008 to 2010 for the approval of the Ordinary General Meeting of Shareholders, detailed supporting information on which was made available to shareholders at the time the Meeting was called.

## **4.2. Senior managers**

Remuneration of members of the Company's Senior Management is determined, individually for each, by the Board of Directors based on recommendations of the Nomination, Remuneration and Corporate Governance Committee.

In 2005 the Board agreed to a proposal by this Committee for a review of senior managers' terms of employment and remuneration to be carried out, with outside advice from Spencer Stuart, a firm of independent experts. The purpose of this review, which is carried out periodically, was to ensure that categories and amounts of remuneration, as well as other terms of employment for senior managers, are at all times consistent with market practices and provide motivation for senior managers to remain with the Company, and an incentive for them to work appropriately and competitively in line with the Company's situation and objectives.

On the recommendation of the Nomination, Remuneration and Corporate Governance Committee, the Board approved the revised remuneration for members of Senior Management for a period of three years, comprising financial years 2005 to 2007 inclusive, as well as certain terms of employment that are referred to later. This remuneration continues to comprise similar components to the previous ones, some annual and others of a longer term nature, as explained below.

The annual remuneration consists of a fixed element, payable in cash; a variable element, also payable in cash, which is geared to the degree of achievement of annual objectives established and to a performance evaluation; and an element of remuneration in kind. As indicated previously, the Board's view was that the fixed allowance should be left unchanged for the three years 2005, 2006 and 2007.

Medium term remuneration is entirely variable, being conditional upon senior managers' remaining with the Company for certain agreed minimum periods, and may consist of cash incentives linked to ongoing achievement of objectives and performance evaluations over these periods and/or in the granting of share options.

In determining the terms and amounts of each of the different components, the following criteria were applied: that variable remuneration should represent a substantial portion of total remuneration; that medium-term remuneration should have considerable weight; and that remuneration linked to share price should be significant but not excessive.

During the financial year 2007 the Nomination, Remuneration and Corporate Governance Committee considered it necessary to analyse whether, following the acquisition of Azertia and Soluziona, and given their considerable importance in the overall size and complexity of the Company's activities, Senior Management was of an adequate size and appropriately remunerated.

As regards the former, it proposed to the Board that five new general managers be appointed, and made further proposals as to their terms of remuneration and the general application to them of the terms of employment currently in force for senior managers, who would now number fourteen as against nine previously. On the latter issue, with advice from Egon Zehnder, a firm of independent experts, it reviewed senior managers' terms of remuneration to check that they were in line with market levels and with the criteria referred to above. This review revealed some discrepancies in amounts of remuneration, some of them significant. However, the Committee, mindful of the upcoming 2008 general review of the remuneration framework for senior managers, proposed to the Board that the remuneration categories and amounts established in 2005 be left unchanged for the time being, and that this circumstance be taken into account in determining the amounts of variable remuneration for the financial year 2007. The Board of Directors approved all the abovementioned proposals made by the Nomination, Remuneration and Corporate Governance Committee.

In June 2007, the Executive Vice-chairman, Mr. Humberto Figarola, ceased to belong to the Board of Directors, remaining as a senior manager until the end of the financial year, at which time he also ceased to be an employee of the Company, resulting in the application of special conditions provided for and previously agreed with him, which in this case involve amounts that are less than those established in general for cases of termination of employment of senior managers, which the Company has announced publicly and at AGMs. Thus, as at December 31st 2007, the number of senior managers in the Company stood at thirteen.

For the year 2007, in accordance with the previously stated criteria, the joint total accrued annual remuneration of the **fourteen senior managers** and its breakdown per each of the categories indicated concepts was as follows:

<b>Annual Remuneration</b>	<b>€000s</b>
Fixed remuneration in cash	4,446
Variable remuneration in cash	5,048
Remuneration in kind	241
<b>TOTAL</b>	<b>9,735</b>

Variable remuneration for 2007 includes extraordinary items relating to favourable results on the Azertia and Soluziona acquisition deals and their subsequent integration, account also being taken in 2007 of the previously mentioned discrepancies in amounts of remuneration. Of the amount indicated for 2007 corresponding to Senior Managers, the Board of Directors agreed, as recommended by the Nomination, Remuneration and Corporate

Governance Committee, that on this occasion the net amount after withholding tax on the amount of €1,818,000 would be paid by allocating shares in the Company at market price (€19.62 per share), giving 56,122 shares. In this respect they also took into consideration the Committee's earlier recommendation that Senior Managers maintain a stable stake in the capital of the Company at least equivalent to their annual fixed remuneration.

The abovementioned amounts of total annual remuneration for all members of Senior Management represent 2.01% of the Company's Net Consolidated Operating Result and 2.12% of the pre-tax Consolidated Result for 2007.

Medium-term remuneration in force during the 2007 financial year was the same as that established in 2005 for the previously mentioned three-year period 2005 - 2007 for the nine senior managers that there then were, plus that corresponding to the five new senior managers appointed in this financial year, and consists of:

- (i) A variable remuneration element payable in cash, geared to achievement of objectives established for the period 2005 to 2007, for a maximum combined amount of 1.33 times the annual fixed remuneration, which effectively accrued at the end of the 2007 financial year, in accordance with the evaluation carried out by the Board of Directors based on a report by the Nomination, Remuneration and Corporate Governance Committee. The controlling Company made provision for these purposes in each of the financial years 2005 and 2006, in the amount of €1,804,369, with €2,292,362 being imputed to the 2007 financial year.
- (ii) 1,020,000 options on the same number of shares in the controlling Company, awarded in June 2005 to a total of 93 beneficiaries as part of the 2005 ESOP, with an exercise price of €16.83 (market price at the time of grant) and an exercise period from April 2008 to June 2009.

During financial years 2007 and 2006 no options on shares were awarded to senior managers.

During financial years 2007 and 2006 senior managers exercised 39,916 and 423,500 options respectively, in both cases on the identical number of shares of the controlling Company, these options having been awarded to them as part of the 2002 ESOP, with a total of 108 beneficiaries. These options had an average exercise price of €6.93 (market price at the time of grant).

The Nomination, Remuneration and Corporate Governance Committee has recommended Senior Managers to buy shares in the Company for their own account, so as to reach and maintain a stable stake in the capital of the Company at least equivalent to their fixed annual remuneration. At the end of the 2007 financial year, the thirteen members, as they then were, of Senior Management owned 251,842 shares, with a market value at that date equivalent to 1.11 times their combined annual fixed remuneration.

Remuneration that, as per the above, corresponds to members of Senior Management who are also members of the Board of Directors, accrues by virtue of their employment by the Company, being independent, as stipulated in the Articles of Association, of the remuneration that they receive in their capacity as Directors.

#### **4.3. Other benefits and compensations**

Neither members of the Board of Directors nor senior managers received during 2007, nor as at year-end 2007 were they beneficiaries of, any other benefits, compensation or remuneration additional to those previously indicated, nor does the controlling Company or any of the companies in the Group have any contractual obligation with them with regard to pensions, or any loans or advances granted to them.

#### **4.4. Compensation clauses and non- competition commitments**

Based on the review carried out of terms of employment and remuneration of members of Senior Management, referred to in section 4.2 above, it was determined that certain of their terms of employment were in need of adjustment.

All senior managers have signed contracts with the Company, regulating the terms applicable to their employment. These contracts have been authorised by the Board of Directors based on a favourable report and proposal by the Nomination, Remuneration and Corporate Governance Committee, and have also been submitted to the 2007 Annual General Meeting of Shareholders and are reported in the Company's publicly available information. By virtue of the provisions of these contracts, senior managers have the right, in the event of termination of employment with the Company, except in the case of voluntary resignation or termination with due cause, to compensation equivalent to that established in article 56 of the Workers' Statute, that is, 45 days worth of their annual remuneration for each year of employment with the Company, with a limit of 3.5 times annual remuneration; and with a minimum amount of three times annual remuneration in the case of the Chairman and the Managing Director. Additionally, as has also been disclosed in public information and at the AGM, Executive Directors and General Managers of Operations (including the General Manager, International) have signed non-competition commitments, with a duration 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 remuneration for each year of non-competition.

#### **4.5. Other public information regarding remuneration**

The Company also publishes information on the remuneration of the Board and of Senior Management in the 2007 Annual Report on Accounts, the Annual Report on Corporate Governance, prepared in the format required by the CNMV, and in the Annual Report on Remuneration Policy prepared by the Board of Directors in compliance with article 29 of the Board Regulations, which provides comparative information with the financial year 2006 and an explanation of the new remuneration structure established for the period 2008-1010 for the Board of Directors and Senior Management. All this information is also duly informed to the General Meeting of Shareholders each year.



## 5. TRANSACTIONS WITH SIGNIFICANT SHAREHOLDERS AND WITH DIRECTORS

The Board Regulations establish that transactions with related parties require authorisation by the Board of Directors, based on a report by the Nomination, Remuneration and Corporate Governance Committee assessing their compliance with the principle of equitable treatment of shareholders and that they are conducted on market terms in accordance with criteria set out in the Board Regulations and listed in section 3.2.1 above.

In the course of the year 2007, the Company carried out commercial and financial transactions and transactions involving the provision of professional services with shareholders Unión Fenosa and Caja Madrid and with companies related to them, as well as with companies linked to Directors Mr. Ramón y Cajal, Mr. Moya-Angeler, Ms. de Oriol, and Mr. Ureta.

All these transactions were authorised in accordance with the criteria set out in the Board Regulations and were carried out in the ordinary course of the operations of the Company and on market terms, not representing, either altogether or individually, a significant amount in relation to the Company's turnover or balance sheet totals.

The breakdown of these transactions by nature is as follows:

Nature of the transaction	Amount (€000s)		
	With Shareholders	With Directors	TOTAL
Sale of goods and services	81,817 (*)	--	81,817
Purchases of goods and services	4,103	1,158	526
Receipt of financial income	36	--	36
Cost of financial services	1,201 (*)	50	1,251
Cost of professional services	--	44	44
<b>TOTAL</b>	<b>87,157</b>	<b>1,252</b>	<b>88,409</b>

(\*) Of these amounts, €3,954,000 and €15,000 respectively correspond to Inversis, a company in whose capital Caja Madrid and INDRA have a joint majority share.

The Company also publishes detailed information in this regard, in compliance with the regulatory rules on half-yearly information to be sent to the CNMV.

## 6. OWN SHARES

In accordance with the stipulations of the Internal Rules of Conduct regarding matters relating to stockmarkets, the own shares policy followed by the

Company pays special attention to ensuring that transactions with own shares do not affect the free price formation process in the market or favour particular shareholders of the Company.

Note 16 to the consolidated Annual Accounts contains a detailed explanation of the balances at the beginning and end of the year 2007, as well as the transactions with own shares during the year.

As regards the volume of ordinary transactions, carried out with a view to providing liquidity to the share and reducing fluctuations in its quoted price, transactions were carried out during year 2007 with the following volumes and prices: purchase of 5,960,708 shares at an average price of €18.46 and sale of 5,758,911 shares at an average price of €18.76. Total purchases and sales carried out represent, respectively, 2.26% and 2.19% of the total volume traded during the year.

Regarding extraordinary transactions, in 2007, 34,881 shares at an average price of 18.57 € were transferred from own shares for ordinary transactions and subsequently allocated at that same price to various managers and senior managers of the Company as remuneration in kind.

The total direct own shares balance at the end of the year 2007 amounted to 243,613 shares (equivalent to 0.15% of the share capital), which corresponded entirely to the balance deriving on that date from ordinary transactions.

Additionally, the financial institution with which the Company signed the cover contract for the 2005 ESOP, publicly announced at the time, and authorised by the General Shareholders' Agreement, maintains in its portfolio 2,281,000 shares (equivalent to 1.39% of the capital), which are considered as indirect own shares.

## **7. MARKET DISCLOSURE AND SHAREHOLDER COMMUNICATION POLICY**

The policy of the Company is regularly to provide comprehensive information to its shareholders, to its investors, and to the market in general, applying at all times the principles of transparency and equitable treatment.

The Company has maintained numerous contacts with shareholders and interested investors, both through the Shareholder Office and through individual and collective meetings with analysts and institutional investors. During the year 2007, 27 firms issued financial analysis reports on the Company and it has held meetings with 337 institutional investors.

The Company includes on its website ([www.indra.es](http://www.indra.es)) a specific section called "Information for Shareholders and Investors", through which it is possible to access directly all the financial information and information on Corporate Governance provided by the Company, contents of which exceeds legal requirements and also enables direct communication with the Company.

## **8. RELATIONS WITH THE EXTERNAL AUDITOR**

The Company's external auditor is KPMG Auditores, appointed annually by the General Meeting of Shareholders based on a proposal by the Board of Directors following a report from the Nomination, Remuneration and Corporate Governance Committee.

In accordance with the stipulations of articles 19 and 42 of the Board Regulations, the Company's relations with its external auditors are channelled through the Audit and Compliance Committee, which supervises their work and keeps watch on their independence, applying the criteria set out in the Board Regulations regarding the significance of the fees for the auditor firm and the rotation of the team in charge of audit work. This Committee is also responsible for authorising, should it be necessary, the Company's contracting of other services with the auditor firm.

During the year 2007, total remuneration paid to the auditors amounted to €998,000 of which €969,000 related to audit services regarding the Annual Accounts of INDRA and €29,000 to other services, contracting of which was authorised on the basis of a prior favourable report from the Audit and Compliance Committee.

*Board of Directors,  
April 24th 2008*

**INFORMATION PROVIDED TO SHAREHOLDERS IN RELATION TO THE  
PROPOSAL FOR APPOINTMENT AND RE-ELECTION OF DIRECTORS,  
SUBMITTED TO THE 2008 ORDINARY GENERAL MEETING OF  
SHAREHOLDERS**

In the current financial year 2008 the term of office of the nine current Directors appointed or re-elected in 2005 comes to an end. (Five independent, two shareholder and two executive Directors.)

In accordance with the principle established in article 22 of the Board Regulations regarding periodical renewal of the Board's composition, the Board of Directors agreed at the beginning of 2005 to apply the following principles, based on recommendations of the Nomination, Remuneration and Corporate Governance Committee: that independent Directors should not serve more than four consecutive statutory three-year terms, save for justified exceptions; and that the renewal process should take place in a gradual and progressive way. It should be borne in mind that at that time all seven independent Directors were male and had been appointed in 1999.

The Board also agreed that in implementing this process steps should be taken to appoint female Directors so as to have a reasonable number of them upon conclusion of the process. In this regard, the Board Regulations establish that the Board and the Nomination, Remuneration and Corporate Governance Committee shall take special care to see that in selecting people to perform the role of Director, principles and policies applied are geared towards ensuring gender diversity among Board members.

These criteria started to be applied on the occasion of the 2005 Annual General Meeting of Shareholders, which approved the appointment of Ms. Isabel Aguilera to fill the position vacated by independent Director Mr. Moya Francés, and continued in 2007, in which year Ms. Mónica de Oriol and Mr. Luís Lada were appointed independent Directors to replace Messrs. Manuel Azpilicueta and Juan Carlos Ureta.

Applying these criteria of gradual renewal, at the beginning of his current term of office, Mr. Francisco Constans stated his wish not to be reappointed at the end of it, to which the Board agreed. The three remaining independent Directors appointed in 1999, whose re-election is proposed to this General Meeting of Shareholders, will also resign their posts progressively over the course of the statutory term now commencing.

To fill the vacancy left by Mr. Constans, to whom the Board expresses its sincere appreciation for his work and efforts during his time in office, the Board has adopted, and submits to the General Meeting of Shareholders, the proposal of the Nomination, Remuneration and Corporate Governance Committee to

appoint as an independent Director Ms. Rosa Sugrañes, whose personal and professional profile is considered ideal for the performance of the role.

Both the Board and the Nomination, Remuneration and Corporate Governance Committee are of the opinion that the candidate proposed as independent Director, as well as having the necessary professional competence, also meets all the conditions necessary for performing this role with dedication and independently. The professional profile of the proposed new Director is attached hereto.

If this appointment is approved, three (75%) of the four new appointments of independent Directors that have taken place since 2005 (and in fact since the Company's IPO in 1999) will have been of women. These three female Directors would represent 20% of the total number of Directors, 23% of outside Directors (independent plus shareholder), and 43% of independent Directors, which is the category in which the Board is best able to bring gender diversity policies to bear.

It should be borne in mind that (i) in the case of the executive Directors, the Chairman and Managing Director have remained unchanged throughout this period, and that both are men; (ii) as far as owner Directors are concerned, the Board and the Nomination, Remuneration and Corporate Governance Committee can only recommend to shareholders that they consider designating women for the post of Director of INDRA to represent their shareholder's interests, and even this depends on there being women at the top level of their respective organisations, since it is in the Company's interest that owner Directors be at that level; and (iii) it is in the area of independent Directors that the Board and the Nomination, Remuneration and Corporate Governance Committee are better able to act, since they can consider a far wider selection of potential female candidates to fulfil the role of Director.

As regards the remaining Directors whose term of office expires, the Board has adopted the proposal of the Nomination, Remuneration and Corporate Governance Committee to submit to the General Meeting of Shareholders, that they be re-elected to a further term of office, without prejudice to the continuation during this new term of the gradual and progressive renewal of independent Directors as already mentioned. The personal and professional profiles of the Directors proposed for re-election are in the public domain and are available via the Company's website ([www.indra.es](http://www.indra.es)), appearing also in the information on corporate governance published by the Company.

Also, in accordance with the provisions of the Board Regulations, the Nomination, Remuneration and Corporate Governance Committee checked that the status of each of the Directors remains the same as at the time of appointment, reporting accordingly to the Board, which confirmed said circumstance, as reported in the Annual Report on Corporate Governance.

In this respect It should be pointed out that, as regards Directors whose re-election is proposed, in accordance with the provisions of the Board Regulations, the Board considers the types of re-election proposed to be justified: (i) as regards executive Directors, their employment with the Company

continues in force; (ii) as regards owner Directors, it has been confirmed that Caja Madrid, whose shareholder interest they represent, currently holds a stake in the Company's capital that is equal to or larger than that which gave rise to the original appointment of these Directors; and (iii) as regards the independent Directors, checks have been carried out to confirm that there are no personal or professional circumstances affecting their independent status, related party transactions carried out by each having been specifically reviewed in this regard, and the Board considers that the independent Directors proposed for re-election meet ideal requirements as regards personal and professional profile and the conditions necessary to fulfil their role with dedication and independently.

Additionally, as laid down in the Board Regulations, the Nomination, Remuneration and Corporate Governance Committee has presented to the Board a Report on past performance of Directors proposed for re-election, concluding that it is in all cases satisfactory. (In the case of Directors that are juristic persons, this report refers to the natural persons representing them.)

With the proposed appointment and re-elections, the Board of Directors will continue to have a very large majority of outside Directors (thirteen, compared with two executive Directors) and, of these, a majority of independent Directors, of whom there are seven, and an appropriate and plural representation of the Company's major shareholders, with six owner Directors.

In keeping with the practice already adopted by the Company in this respect, and in line with best practices in corporate governance, the proposals for appointment and re-election of Directors will be voted on individually and separately for each individual, both as regards voting in person at the General Meeting of Shareholders and as regards voting via the remote means of communication facilitated for the purpose by the Company. In the event that attendance cards issued by depository institutions do not cater for the possibility of voting individually on the appointment of each Director, shareholders may signal their separate and individual votes for each on the attendance card itself, or in a document attached thereto, and deliver it to the Company, duly identified and signed.