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# **2011 ANNUAL REPORT ON COMPENSATION OF DIRECTORS AND SENIOR MANAGERS**

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*May, 2012*

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This report was prepared by the Board of Directors of Indra (the “Board”) at its meeting held 10 May, 2012 following a proposal from the Nomination, Compensation and Corporate Governance Committee (the “Committee”) as stipulated in Article 29.4 of the Regulations for the Board of Directors as well as in accordance with the provisions of the *Ley de Economía Sostenible* (“Economic Sustainability Act”) and the *Ley del Mercado de Valores* (“Securities Exchange Act” or “LMV”).

### **1. Director Compensation**

#### **1.1. Policies and Compensation Criteria**

Compensation for members of the Board is determined in accordance with provisions in the Bylaws and the Regulations for the Board of Directors as well as resolutions adopted at Annual Shareholder Meetings (individually, “Meeting”).

It has been Company practice to periodically review the compensation amounts and criteria for members of the Board in order to maintain them at market levels and consonant with best practices and recommendations in the field, taking into account Company characteristics, professional profiles of Directors, the dedication demanded for diligent performance of their duties and the responsibility they take on, as well as fulfilment of the requirement contained in the Regulations for the Board of Directors that compensation of External Directors be sufficient incentive for their dedication, qualifications and responsibility, but not so much that it undermines the independence of Independent Directors.

Once the three year period 2008 to 2010 ended for which the then current compensation regime was established, the Board, after a report from the Committee, carried out a new analysis and availed itself of the independent firms of experts in this field PwC and Egon Zehnder.

This analysis resulted in the recommendation that compensation systems for Directors other than Executive Directors not incorporate components tied to short term objectives and variables, in particular those related to profits and stock price.

In applying this recommendation, the Committee proposed that the Board remove profit sharing from the new compensation scheme, basing compensation exclusively on fixed amounts as well as paying all compensation in cash instead of by delivery of shares or granting of options as had been done in previous periods.

In 2011 the Board brought the corresponding proposal to the Annual Shareholders Meeting which agreed to modify the Bylaws to eliminate profit sharing as a compensation item and fix the maximum annual amount paid to the Board at 2,400,000 € which amount will remain in effect until modified at a Meeting Although the Board foresees that compensation will remain the same for a period of three years unless there is a relevant change in circumstances.

The maximum annual amount of 2,400,000 € approved by the Board was derived by multiplying the maximum number of Directors provided for in the Bylaws (16) by 150,000 €, considered a reasonable average annual amount per Director.

Subject to this maximum annual amount authorized by the Shareholders, the Board resolved to distribute fixed compensation among the Directors as follows : 100,000 € for membership on the Board; 30,000 € for membership on the Executive Committee; 50,000 € for membership on the Audit and Compliance Committee; and 30,000 € for membership on the Nomination, Compensation and Corporate Governance Committee; with each chairman receiving 1.5 times the amounts indicated for each committee.

The Board brought this proposal for fixed compensation to the Meeting where these amounts were approved in consideration with the level of dedication required by the Directors and the high degree of attendance on their part at Board and Committee meetings, and also taking into consideration that membership requires dedication and availability of the first order.

Taking into account that during the period 2008 to 2010 average annual compensation per Director was maintained at 140,000 €, the average annual increase that the new amount represents is 2.3%.

The Board also agreed that if the Company does not achieve in one year the published targets it will reconsider its Compensation amounts, reporting it to the Meeting.

The Board, through the Nomination, Compensation and Corporate Governance Committee, sought the advice of the firms of independent experts PwC and Egon Zehnder, which issued opinions regarding the new compensation scheme applicable beginning fiscal 2011 and approved at the Meeting and by the Board itself saying “*the compensation criteria and amounts are adequate, at market level*” and that they “*follow the best practice and most recent recommendations in these matters*”.

## **1.2. Compensation Amounts**

An individualized breakdown of total compensation received by each member of the Board of Directors during fiscal 2011 and 2010, in their capacity as Directors of the parent Company, is indicated in the following chart:

DIRECTOR COMPENSATION (€) 2011					
DIRECTOR	FIXED AMOUNT				
	BOARD	EXECUTIVE COMMITTEE	AUDIT AND COMPLIANCE COMMITTEE	NOMINATION, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE	TOTAL
ADM. VALTENAS <sup>(1)</sup>	100,000	30,000	--	---	130,000
I. AGUILERA	100,000	30,000	50,000	--	180,000
J. DE ANDRÉS <sup>(2)</sup>	50,000	15,000	--	--	65,000
CASA GRANDE DE CARTAGENA	100,000	--	50,000	--	150,000
D. GARCÍA-PITA	100,000	30,000	--	45,000	175,000
MEDIACION Y DIAGNOSTICOS <sup>(3)</sup>	100,000	30,000	--	30,000	160,000
L. LADA	100,000	30,000	--	--	130,000
J. MARCH	100,000	30,000	--	30,000	160,000
J. MONZON	150,000	--	--	--	150,000
R. MORANCHEL	100,000	45,000	--	--	145,000
M. ORIOL	100,000	--	--	30,000	130,000
PARTICIPACIONES Y CARTERA DE INVERSION	100,000	--	50,000	--	150,000
I. SANTILLANA <sup>(4)</sup>	50,000	--	25,000	--	75,000
M. SOTO <sup>(5)</sup>	50,000	--	37,500	--	87,500
R. SUGRAÑES	100,000	30,000	--	30,000	160,000
A. TEROL	100,000	--	62,500	--	162,500
<b>TOTAL</b>	<b>1,500,000</b>	<b>270,000</b>	<b>275,000</b>	<b>165,000</b>	<b>2,210,000</b>
Average Compensation per Director (14.5 Directors)					<b>152,414</b>

(1) Representing Liberbank

(2) Director since July, 2011

(3) Representing Banco Financiero y de Ahorros

(4) Director since July, 2011

(5) Director until June, 2011

DIRECTOR COMPENSATION (€) 2010							
DIRECTOR	FIXED AMOUNT				TOTAL FIXED COMPENSATION	PROFIT SHARING <sup>(6)</sup> (50% in shares)	TOTAL
	BOARD	EXECUTIVE COMMITTEE	AUDIT AND COMPLIANCE COMMITTEE	NOMINATION, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE			
ADM. VALTENAS <sup>(1)</sup>	32.000	9.000	--	--	41.000	85.465	126.465
I. AGUILERA	32.000	18.000	24.000	--	74.000	85.465	159.465
CASA GRANDE DE CARTAGENA	32.000	--	24.000	--	56.000	85.465	141.465
D. GARCÍA-PITA	32.000	9.000	--	22.500	63.500	85.465	148.965
S. GABARRÓ <sup>(2)</sup>	10.667	--	--	6.000	16.667	28.488	45.155
MEDIACION Y DIAGNOSTICOS <sup>(3)</sup>	32.000	18.000	--	18.000	68.000	85.465	153.465
L. LADA	32.000	18.000	--	--	50.000	85.465	135.465
J. MARCH	32.000	18.000	--	9.000	59.000	85.465	144.465
J. MONZON	48.000	9.000	--	--	57.000	85.465	142.465
R. MORANCHEL	32.000	18.000	--	--	50.000	85.465	135.465
J. MOYA-ANGELER <sup>(4)</sup>	16.000	9.000	--	13.500	38.500	42.732	81.232
M. ORIOL	32.000	--	12.000	18.000	62.000	85.465	147.465
PART. Y CARTERA DE INVERSION <sup>(3)</sup>	32.000	--	24.000	--	56.000	85.465	141.465
M. SOTO	32.000	--	36.000	--	68.000	85.465	153.465
R. SUGRANES	32.000	18.000	--	9.000	59.000	85.465	144.465
A. TEROL <sup>(5)</sup>	16.000	--	12.000	--	28.000	42.732	70.732
<b>TOTAL</b>	<b>474.667</b>	<b>144.000</b>	<b>132.000</b>	<b>96.000</b>	<b>846.667</b>	<b>1.224.997</b>	<b>2.071.664</b>
<b>Average Compensation per Director (14.3 Directors)</b>					<b>59.207</b>	<b>85.664</b>	<b>144.872</b>

(1) Representing Caja Asturias

(2) Director until April, 2010

(3) Representing Caja Madrid

(4) Director until June, 2010

(5) Director since July, 2010

(6) For the period 2008-2010 the majority of compensation was a function of Company profit sharing and, of this amount, 50% was paid by delivery of shares.

Total Director compensation in 2011 represents 0.82% of Consolidated Operating Profit and 0.95% of Consolidated Earnings before Taxes for the fiscal year, according to the Annual Financial Statements prepared by the Board; it represented 0.82% and 0.89% respectively in fiscal 2010.

No Director received during 2011 or 2010 any profit or income by virtue of his or her position as Director other than that described above; neither has Indra nor any company within its consolidated group undertaken any pension obligations or given any loans or advances 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 labour 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.

### **1.3 Acquisition of Shares by Directors**

Without affecting that all Board compensation be paid entirely in cash, all of the Directors have communicated their decision to the Company to dedicate a significant portion of their compensation (one-third of their gross compensation, which amounts to about half of net pay for a natural person Director) to the purchase of Indra shares and have promised as well to maintain ownership of them until the end of their terms in office. This decision by the Directors was made known to the *Comisión Nacional del Mercado de Valores* ("National Securities and Exchange Commission" or "CNMV") by means of communication of a Relevant Fact on 28 July, 2011.

This decision means that during fiscal 2011 Directors acquired a total of 57,284 Company shares, investing a total amount of 707,405 €, an amount equivalent to 32% of gross compensation and 42% of net compensation during said fiscal year, the second percentage rising to 47% for natural person Directors.

At the end of 2011 the Directors have a total of 201,629 shares of the Company, with a market value to that date of 1,984,029€ (of the shares held by the executive directors have been included only the shares acquired in their capacity of Directors)

### **1.4 Fiscal 2012**

In accordance with resolutions adopted at the Meeting and by the Board, the Director compensation scheme applicable for 2012 is the same as applied in 2011, with the same criteria and compensation amounts as described in paragraph 1.1 above; and it is anticipated that it will continue to apply for fiscal 2013 unless there is a relevant change in circumstances.

## **2. - Compensation of Senior Managers**

### **2.1. Compensation Policies and Criteria**

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.

It has been Company practice since 2002 to establish a compensation framework for senior management for the medium term, normally three years, during which fixed compensation remains invariable.

In fiscal 2011, based upon a recommendation by the Nomination, Compensation and Corporate Governance Committee, the Board reviewed said compensation framework, considering outside advice from the independent firm of experts Egon Zehnder. The aim of this review was to ensure that the criteria and compensation amounts, as well as other elements that make up Senior Managers' employment conditions, remain in line with best market practices, help motivate long term employment, and guide management of the Company in a proper and competitive manner considering the situation, corporate culture, and goals of the Company.

After the above mentioned review, the Board decided to maintain a compensation framework for a new three year period comprising fiscal 2011, 2012 and 2013 with components similar to those of prior periods, some annual and others multiannual.

Annual compensation continues to be composed of: (i) a fixed cash component; (ii) 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 (iii) non-cash compensation.

- (i) The Board criteria was that fixed compensation remain unchanged for a new three year period except for those senior managers who have seen their responsibility level changed or unless specific future circumstances warrant review.
- (ii) 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 50% and 100% of the fixed annual compensation referred to above.

In determining the degree to which each senior manager has met goals, attainment levels are considered for overall goals of the Company (using metrics from sales, contracting, profit, investment, working capital and net debt) as well as individual goals referenced to the manager's respective area of responsibility, which are at once quantitative (sales, contracting, contribution margin and profit, investment and working capital as well as budgets and expenses directly managed) and qualitative (such as: international development in pre-established geographic areas, attainment of goals to generate new business, acquisition and integration of new

businesses, implementation of new global delivery processes, cost reductions and improvements in management).

Achievement of quantitative goals is evaluated using a related scale (which also includes in its parameters anticipated and observed development in the market and in the major players in the sector) and qualitative goals are tied to the annual evaluation of the work of the senior manager. Evaluation of the level of achievement of goals does not take into account the occurrence of extraordinary events.

- (iii) Non cash compensation consists primarily of a life insurance policy which pays out in the event of death or disability as well as health insurance.

All medium term compensation continues to be variable, is conditioned upon the recipient's remaining on the Senior Management team of the Company during a defined period, and consists of: (i) a cash incentive tied to Company performance, the meeting of objectives, and a performance evaluation of each Senior Manager; and (ii) the delivery of shares (stock options which were previously given having been eliminated).

- (i) Medium term cash compensation has been established within a range of between 1.9 and 3 times the annual fixed compensation for a satisfactory evaluation by the Board regarding the progress of the Company and the performance of each Senior Manager for the period 2011 to 2013, considering the attainment 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. Criteria and methodologies similar to the ones explained above regarding variable annual contribution are used to evaluate achievement of medium term goals. Medium term compensation vests at the end of the three year period and may be received upon the close of fiscal 2013.
- (ii) Medium term compensation made by means of Delivery of stock has a net value equal to a portion of gross compensation of between 15% and 25% for each senior manager. The terms and conditions for delivery of shares to senior managers was approved at the 2011 Meeting where it was resolved to do so at market price upon delivery for fiscal 2011, 2012 and 2013, and senior managers shall maintain ownership of the shares received for a period of 3 years.

The following criteria has continued to be used in order to determine the terms and amounts of variable compensation explained above: that the variable compensation represents a substantial and even growing part of the total compensation, just as it is already at a relatively high level compared to the average for the market; that medium term compensation be an important component; and that its connection to stock value be significant, but not excessively so.

The Board believes that this compensation plan will be effective in maintaining Company senior management compensation consonant with best market practices and conditions; will motivate retention and guide management to focus not only on the short term but the medium term as well; have a reasonable connection with changes exclusively in medium term stock value; and be geared overall towards the current condition, goals and growth objectives of the Company.



Egon Zehnder has advised the Board that, *“the compensation policy, structure and amounts for senior management of Indra for the new three year period (fiscal 2011, 2012, and 2013) is in line with those of Ibex 35 companies similar in complexity, geographic diversity and size”* and it is *“notable that total fixed compensation has remained stable other than for those senior managers who have seen an increase in their responsibility, as only variable compensation has increased.”*

## 2.2. Members of Senior Management

At the close of fiscal 2011 there were nine members of Senior Management as follows:

Chairman			Javier Monzón
Executive Vice Chairman			Regino Moranchel
Managing Director			Javier de Andrés
Corporate Presidents	Executive	Vice	Juan Carlos Baena
			Emma Fernández
Operational Presidents	Executive	Vice	Emilio Díaz
			Rafael Gallego
			Santiago Roura
			Carlos Suárez

The Executive Vice Chairman was named to his post at the end of fiscal 2010 and remained as Managing Directors until June, 2011, the month in which the current Managing Directors was promoted from his earlier position as Executive Vice President. The Executive Vice President Carlos Suárez was appointed at the beginning of the fiscal year.

At the end of fiscal year 2010 there were 8 members of Senior Management as two Executive Vice Presidents had left their posts and one was named during the year.

The Chairman, Vice Chairman and Managing Director are also members of the Board of Directors as Executive Members. In accordance with the Bylaws, the compensation they receive as a result of their status as Board members is independent of the salaries they receive as a result of their status as senior managers. In this second section there are details regarding the amounts of their employment compensation.

## 2.3 Compensation Amounts

After evaluations were done by the Board, the resulting compensation amounts were the following:

### **Annual Compensation of Senior Managers for Fiscal 2011 (m€)**

	<b>Total Senior Managers</b>		<b>Chairman</b>		<b>Vice Chairman (1)</b>		<b>Managing Director (2)</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Fixed Compensation	4,475	4,250	1,000	1,050	650	660	225	n.a
Variable Compensation	3,128	3,120	900	1,050	585	660	203	n.a
Payments in Kind	238	228	41	39	45	42	11	n.a
Total Compensation	7,841	7,598	1,941	2,139	1,280	1,362	439	n.a
Average Number of Senior Managers	9	8,75						
Total Average Compensation per Senior Manager	871	868						

(1) Managing Director in 2010

(2) Only for the six month period corresponding to the second half of 2011

The indicated total remuneration amount corresponding to the three Executive Directors represents 1.37% of the consolidated net operating result and the 1.57% of the consolidated result before taxes in 2011 and have represented respectively the 1.39% and the 1.5% in 2010.

Medium term compensation in effect for 2011-2013 is, as noted above, that which was decided in 2011 for a period of three years. It consists of cash incentives and delivery of stock.

Medium term cash compensation will vest and be received, if at all, upon the close of fiscal year 2013. The Company has made reserves during fiscal year 2011 in the amount of 3,750 m€; of this sum the following amounts will go to the Executive Directors as follows: 1,000 m€ for the Chairman; 650 m€ for the Vice

Chairman, and 225 m€ (for the six month period) for the Managing Director. The total amount for fiscal 2010 for this item was 3,080 m€ and the amount of which corresponded to Executive Directors: 1,050 m€ to the Chairman and 660 m€ for the Managing Director.

Consistent with the above mentioned authorization made at the Meeting, in 2011 the Board of Directors, upon proposal made by the Nomination, Compensation and Corporate Governance Committee, agreed to deliver to Executive Directors 174,137 shares in fiscal year 2011 divided as follows: 51,315 to the Chairman, 33,529 to the Vice Chairman and 11,915 to the Managing Director. During fiscal year 2010 a total of 42,272 shares were delivered to Senior Managers; of the Executive Directors, 13,619 went to the Chairman and 8,826 to the Managing Director.

Senior Managers did not receive money in 2011 or 2010 nor any other benefits, compensation or payments apart from those described in this report, nor does the parent Company or any of its affiliates have any contractual obligation regarding pensions, loans or advances to their benefit.

Independent of the foregoing, the Nomination, Compensation and Corporate Governance Committee has recommended that senior managers acquire Company shares for their own account so that they reach and maintain a stake equal to at least one year's fixed compensation. At the end of fiscal 2011 all the members of Senior Management held 601,458 shares with a market value on such date of 1.3 times their total fixed annual compensation.

The Board, through the Nomination, Compensation and Corporate Governance Committee, has asked the independent firm Egon Zehner, which is well known for its experience and prestige in this area, to render an opinion regarding the compensation of senior managers for fiscal 2011, and they stated that it was *"appropriate, with moderate fixed compensation and heavily weighted variable compensation so that medium term compensation is tied primarily to progress in the business."*

## **2.4. Contractual Framework of Senior Management's Employment Relationships**

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 have been submitted to the Annual Shareholders Meetings since 2007. 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 severance payment of between one and three and a half times their total annual compensation (base salary defined in their respective employment contracts); in the case of the Chairman and Vice Chairman, minimum compensation is set at three times annual compensation. Additionally, Executive Directors and Operational Executive Vice Presidents 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 total annual compensation for each year of non-competition.

As a result of the appointment of Mr. Regino Moranchel as Executive Vice Chairman of the Company, his contract has been rewritten in order to conform to the new relationship and contains a commitment that he will remain with the Company until fiscal 2013 with a corresponding right on his part to receive the indemnity amount contained in his contract once its term has expired, conditioned upon completion of the above mentioned commitment to remain; all of these terms have been previously approved by the Board upon recommendation by the Committee.