

Speech of the Chairman & CEO 2017 General Shareholders Meeting

Ladies and gentlemen: good morning and welcome to the Ordinary Shareholders Meeting.

It is a satisfaction for me to address you and tell you about our company's achievements in 2016. I will also share with you some of the actions and initiatives Indra has launched and, in particular, present the company's prospects and future plans.

I will start off by indicating that Indra became stronger during 2016 by improving our businesses' profitability and cash generation.

As you are aware, we have faced difficult changes over the last two years, making necessary decisions aimed at transforming the company and laying the foundations for a future of orderly, sustainable and profitable growth.

In 2016, we have already started to see some results of our efforts. I would like to highlight some particular aspects:

- There has been a gradual improvement of our competitiveness and profitability. With the restructuring and costs cuts plan practically completed, operating margins have improved and EBIT has reached 6% (compared with 1.6% the previous year).
- Order intake also increased 6% in local currency terms, compared with the previous year.
- We have generated a recurrent and sustained positive free cash flow. Thanks to operational improvements and the management of working capital, cash generation this year has amounted to €184 million.
- Furthermore, Indra has achieved significant deleveraging. The Net Debt ratio compared with EBITDA at the end of 2016 has dropped to 2.3 times, compared with the 5.4 times of December 2015.

The truth is that this improvement is grounds for celebration, but let's not deceive ourselves, because in reality the challenges facing us continue to be huge and the environment in which we do business is highly competitive.

- The macroeconomic growth figures in our key geographies continue to be completely favorable, and the capacity for investment of our clients in relevant countries for our business continue to be affected by the price of raw materials, and especially by oil prices.
- All of this is in addition to the extreme competitiveness of a technological environment in which our clients also suffer the effects of the growing demands of users and consumers.

All of these challenges that we face as a company obligate us to continue our efforts for extending the success of our Transformation and to work to continue increasing the profitability of the businesses.

In relation to this latter goal, and within the strategic context, is our takeover bid on 100% of TecnoCom shares, recently concluded successfully, and the integration of which is one of our main challenges.

At the recent Extraordinary General Shareholders Meeting held in February, we explained in detail the reasons supporting the bid for TecnoCom, summarized as follows:

- First, the improvement of operational leverage, which translated into a high potential of operating synergies in terms of costs, and
- Second, the possibility of obtaining revenue synergies from the enhanced competitive positioning in terms of geographic footprint, customer base and range of solutions, particularly in the Financial Services market.

A well-executed integration will ensure that the acquisition of TecnoCom will represent an important boost for Indra.

Recall that, with this acquisition, we have created the Spanish IT leader, with over €3.2 billion of revenue, and the country's leading supplier of tech solutions in many fields.

The integration process has already started:

- We are currently deploying the initial phases of the integration of corporate and business structures.
- The integration teams are working together to ensure that synergies are achieved.
- Throughout the entire process, it will be critical for us to maintain the maximum focus on customer service and guarantee excellence and quality of services and projects.
- Simultaneously, we must also pay special attention to the management of people, talent and expectations. Both Indra and TecnoCom are knowledge-based companies. I would like to stress once again that we at Indra value highly the experience and capacities of TecnoCom's management team and professionals and, to date, do not expect that any collective bargaining agreements will be necessary.
- The tangible results of the integration will not be immediate, but will arise during the execution of its different phases and the materialization of synergies.

We are committed to notifying and updating shareholders and employees on the integration's progress.

At the last General Meeting, I explained the series of initiatives for transforming the company that comprised the 2015-2018 Strategic Plan, structured into 6 major blocks: initiatives for costs cuts, offer portfolio, commercial strategy, delivery model, growth in new businesses and cultural change.

During 2016, we have driven and completed many of the actions launched, while also planning and kicking off new ones.

I would like to give you a quick overview of the progress level of the most relevant initiatives, launched or underway:

The cost reduction plan and improved competitiveness at Indra is where we have focused the majority of the most visible actions in 2015.

- As you know, Indra has implemented a workforce restructuring process in Spain and Latin America. This reorganization was completed in December 2016 and has enabled us to recover some of the lost competitiveness and gradually gain ground on margins in regions, particularly in Latin America.
- We continue to make progress in reducing other costs, thanks to, among other initiatives, redefining purchasing processes and supplier management, in the pursuit of greater transparency and competency of supply.

Regarding the portfolio of products and solutions, after reflecting on this and on the Offering Map of the different markets, we have drafted Transformation Plans that will permit us to move forward in all processes of standardization and packaging of our solutions and to drive our proprietary products in both Transport and Defense as well as IT Technology markets.

- We have also deployed a commercial strategy that has been defined in ambitious Commercial Plans for reinforcing and expanding our relations with our large, historical accounts, and for identifying and obtaining new clients as driving forces.
- In terms of Transformation and operational efficiency, we continue to work so that our global operations model will evolve toward a more competitive *mix*, introducing levers for *lean* standardization, industrialization and optimization.
- As regards processes, one of the most profound initiatives for change we have implemented is the new organizational and operations model for Indra's corporate functions, called the Global Business Services (GBS) Project, which we submitted for your approval, as you may recall, during the Ordinary Shareholders Meeting last year.
 - Global Business Services entails the transformation and rationalization of Indra's corporate functions. As a result, the two Shared Services Centers (SSC), in Spain and Mexico, are fully operational.

As we complete the reorganization, restructuring and structural improvement of our efficiency, we are also committed to harnessing our businesses' potential for growth.

In this regard, together with traditional businesses, we maintain the maximum focus and efforts on the takeoff and consolidation stage of Minsait, which as you will recall is the Indra business unit that fuses technology and consulting solutions in the Digital Transformation business, which occupies a prominent position in the strategic agendas of all our customers.

Minsait is developing during these initial phases a broad portfolio of business solutions, a proprietary sales and delivery model designed to generate impact, and is building expertise in fields like cybersecurity, Big Data, *Internet of Things* and even Industry 4.0.

This combination of industry knowledge, knowledge of the customer, and mastery of different digital technologies should enable Indra to multiply our capabilities to reach new customers and projects, which could be accelerated with inorganic opportunities that fit in our strategy and may significantly enrich our offer.

Furthermore, as we announced last year, we have successfully implemented a new, open innovation model that aspires to expand our ability to generate and capture potentially attractive ideas for our new product offering.

- To drive this model, we are promoting intrapreneurship and have established the subsidiary *Indraventures*, which channels relationships, analysis and investment in the entrepreneurial ecosystem.

The aforementioned initiatives can only be executed and successfully implemented through a cultural change that steers the fostering of new principles, values and ways of doing things. A culture in which we want to place the emphasis on:

- Results-oriented activities, increasing our profitability and cash generation
- Driving the technological leadership of our products and solutions through our renewed commitment to Innovation
- Aspiring to achieve management excellence and maximum operational efficiency
- Cultivating a culture of integrity, rigor and accountability in project execution
- And, offering our employees a differentiated acknowledgment of their achievements and talent by providing them with career planning, training and remuneration based on their objective contribution.

The most critical factor for the business is everything related with human resources and, in particular, with the need to attract and retain the talent of the best professionals. Several core initiatives have been introduced in this regard, such as the Corporate University, specific Career Planning for different groups of professionals and a program to recruit Junior Talent, which in 2017 alone intends to hire 2,000 young professionals so that they will pursue their career with us in Spain and in Latin America.

All of these measures, together with the improvements included in the employee evaluation processes and the variable compensation model at all levels, including the Board and the Management Committee, serve for us to improve a professional climate where integrity, transparency, responsibility and a results-centric approach are paramount.

As regards risk management and effective project control, this is perhaps where corrective actions have been the most decisive and resulted in the greatest impact. New mechanisms and procedures are successfully fulfilling their purpose and have resulted in the availability of a portfolio of higher quality and, therefore, to structurally mitigate the risk of incurring in failed projects again.

Recently, we have also completed the strengthening of the company's Risk Management System by establishing a specific Risk Management unit, which reports directly to the Board's Audit Committee.

Finally, I would like to underscore just how much more deep-rooted the culture of Compliance has become at Indra over the last two years. Specifically, in 2016 we executed numerous information campaigns, with classroom and online sessions for all professionals on the Penal Risk Prevention Model and the Code of Ethics and Legal Compliance, in all of its aspects.

In summary, we have made significant progress in the plan's development and, thanks to this, the company is undergoing a positive transformation. Yet, if we look back, it's important to remember that the Strategic Plan we presented in July 2015 focused, necessarily, on the diagnosis of the -at that time- difficult financial situation and depletion of the company's cash flow, and as a result was focused on defining the keys for reverting the trends, especially for the IT business, which concentrated a major part of the causes of our difficulties. Logically, the Plan focused on clarifying the actions required to effectively revert the company's situation and recover the trust of our shareholders and investors.

With our restructuring practically completed and the company surging forward on the correct path, we believe that it is essential to design a strategic horizon for the mid term, to identify new sources for creating value for our shareholders through a new Strategic Plan.

Given an extremely complex and dynamic technological environment, where trends undergo acceleration, we must think of how to develop our businesses in the mid term, in which technologies of the future we must invest in, what solutions and service and delivery models we must develop, or which organizational model will enable us to execute all of this in the best possible way.

The new Plan must address the challenges of the two critical markets and both businesses we have at Indra: IT and the Transport & Defense market.

In the IT market, which has undergone intense transformation measures, many of which I have already commented on, the reflection should help us consolidate our improvements, continue making strides to raise profitability and efficiency, and strategically focus the business toward areas of greatest value and growth.

As regards Security & Defense, there's a significant expanse of fertile ground for growth and improvement in a fundamental business for Indra's present and future. The challenge here lies in harnessing the elevated potential for growth and the positive prospects in the geo-strategic context for the Security & Defense business. The objective herein entails modernizing and improving our operating and commercial capabilities to shore up the changes already in place and continue boosting our Defense-related activities in this new cycle.

In relation to this, the Security & Defense transformation process initiated last year is worth mentioning, which contemplates a complete program of initiatives aimed at modernizing the commercial, management and manufacturing strategy models. In September 2016, we hired a new Production Manager to apply the industry's best practices in the supply chain and *lean manufacturing*.

The context of the new Plan also contemplates a global increase in Security & Defense investments and, in particular, technologies that will reinforce our leadership in radars, electronic defense, command and control.

In addition, the recent appointment of a new Market Director with such a rich technological and digital background will enable us to face this market's new strategic challenges with prospects of success.

To draft this new Strategic Plan, we are currently immersed in a collaborative reflection process with the participation of the Board, the management teams, capturing and intending to capture the best global practices, while also listening to the best external experts, who can offer us new points of view.

Next fall, we will share with our shareholders and investors the results of the Strategic Reflection and specific proposals that derive of it.

But, in parallel, our efforts to date are focused on fulfilling the Goals set for 2017.

- Our budget is demanding, especially for the second half of the year, and this is the priority for all our teams, of both Indra and TecnoCom.
- Furthermore, we continue operating in a macroeconomic context that continues presenting objective difficulties, and, therefore, also remain focused on new clients and anticipating their needs.
- At the same time, we must persevere in our efforts related with costs and efficiency, both in Spain and abroad.
- On July 28, we will present our results for the first half year.

Finally, I would like to reiterate the paramount importance for any company of having a robust Corporate Governance system, wherefore I would like to refer to the initiatives adopted at Indra in this regard since the last Ordinary Shareholders Meeting:

- The new Internal Code of Conduct has been approved in relation to the securities market, as a result of the entry into force (July 2016) of the Regulations of the European Parliament and of the Council on market abuse.
- For the purpose of applying the criteria on the renewal of independent directors, reported at the last Ordinary Shareholders Meeting, by not proposing the re-election of Mrs. Isabel Aguilera and of Mrs. Rosa Sugañes, to

whom we are grateful for their important contribution to Indra over the years.

- In our search for new candidates as Board members, we have adhered to the selection policy in effect, counting with the collaboration of external advisers for identifying suitable candidates. Likewise, as regards gender diversity, the Board has assured that the selection of candidates is carried out in compliance with the criteria and policies oriented toward gender diversity among Board Members; during this process, the selected candidates have been Mrs. Iranzo and Mrs. Rotondo, the proposed appointment of which I present to you today.
- The Appointments, Remuneration and Corporate Governance Committee, also counting with the collaboration of an independent firm specialized on compensation, has reviewed the board member Remuneration Policy to verify that it continues to comply with international standards and recommendations of the Listed Companies Good Governance Code. In compliance with the provisions of article 529 of the Capital Companies Act, at this General Shareholders Meeting we submit the new 2018-2020 Remuneration Policy for approval, the terms of which are quite similar to the current policy.
- In implementing the principle of transparency in reporting of the Company's corporate governance system, during the reference period we have upheld an active and open communication policy with shareholders and the so-called *proxy advisors*, informing them of corporate operations (Tecnocom Takeover Offer) and other actions (issue of convertible bonds, etc.) taken during the year, as well as of the Company's progress and fulfillment of the Strategic Plan announced during the most recent "*Investor's Day*" in July 2015.

As you may have already read in the Annual Corporate Governance Report, published in April together with the Annual Accounts, our degree of compliance with Good Governance Recommendations is very high. In 2016, Indra was non-compliant with only one of the 64 existing recommendations: specifically, Recommendation 48, which sets forth that companies with high market capitalization should have separate Appointments and Remuneration Committees. Indra has not considered it convenient to split its current Appointments, Remuneration and Corporate Governance Committee in two, interpreting that this fails to be justified, given the volume of issues to be addressed annually and because it would unnecessarily increase the number of board member Committees and remuneration.

At that time, already two years ago, I shared with you that, while aware of the difficulties, we had a clear vision of Indra's future and a roadmap for its transformation.

We are beginning to appreciate specific results of the actions implemented and, though there's still a long road ahead and progress has neither been nor will be linear, to date we are a more stable, solid and profitable company. Furthermore, we are about to position ourselves to modestly raise our expectations and set more ambitious goals for our future.

Sincerely, I consider that we are at a watershed moment after the so-called end of our restructuring period, as we now stand before a window of opportunities to create value, for which we must be prepared to take the fullest advantage for success. This is an exhilarating moment for a company such as ours, immersed in a technology sector that is in the spotlight of interest of investors and society at large.

We must still face significant challenges, continue to get the strategy right, and make difficult decisions in an environment of a great uncertainties of all types, but I think that we have the foundations for successfully launching a new phase.

Indra's market value has entailed a revaluation of almost 70% per share since we initiated this journey of transformation almost two years ago, compared with the 3% equivalent of the IBEX35 stock market index. A positive valuation has been maintained in 2017, given that in just this half of the year, our shares have increased 20%, also significantly above the IBEX35 average of 13%.

Allow me to conclude by thanking all of Indra's professionals and its management team for the extraordinary effort and performance they have put in day after day to improve our company.

I would also like to express my most sincere appreciation to all of you for your continued trust.

Thank you very much.