Speech by the Chairman & CEO at the 2017 Extraordinary General Shareholders' Meeting

Good morning again ladies and gentlemen and welcome to the Extraordinary General Shareholders' Meeting. We have called this meeting to submit for your approval a proposal for a capital increase to implement the tender offer for the shares of Tecnocom.

At last June's Ordinary General Shareholders' Meeting, we assessed our performance in 2015 and presented the outlook and future plans for the company.

At that meeting, we shared with you the ambitious range of actions, changes and restructuring decisions undertaken to **transform our business, financial and operational dimensions**.

All of this is geared to being a **profitable company** with a **firm aspiration of achieving sustained and orderly growth**.

We have made considerable inroads in delivering these objectives and, although the 2016 financial statements will not be submitted for your approval until the Ordinary General Shareholders' Meeting, **Indra today is a much stronger and more financially sound company, with better risk governance, control and management mechanisms.**

We have a tighter focus on our **strategic strengths**, centered on our **technologically differentiated products and assets.** We are in the midst of a far-reaching **plan to transform operations** and, also extremely important, bring the company **more in line with what our shareholders and investor require and expect of us.**

However, the challenges facing us are huge and, in the ever-changing competitive environment in which we do business, there is no time to relax.

Be it for the inherent requirements of competing in the tech industry, for our geographic reach, the number and intrinsic difficulty of our projects or the myriad variables affecting our business, **our company must be in a permanent state of innovation and continuously improve its competitiveness** if we want to provide the right strategic response to this complex and dynamic environment.

Customers around the world **want us as their tech partner. They need a reliable partner that can deploy the best solutions and cutting edge technology, but with maximum efficiency and competitiveness.**

And it is precisely this need for maximum competitiveness and coping with the strategic challenges facing us in the best possible way that we are submitting for your consideration today the acquisition of Tecnocom.

To shed light on the industrial logical behind this move, I would like to share with you briefly a few strategic ideas regarding Indra's business model.

As you know, our activity pivots around technology associated with key business operations in a host of industries: Transport, Defense and Security, Financial Services, Public Administration, Healthcare, Telecom, Energy and Industry.

Our vision is to be the tech partner for our customers at the core of their business operations worldwide.

The pursuit of this vision in various industries has given rise to two business segments that, using technology as a common denominator and integrator, cater to highly divergent dynamics.

Here, I mean the **Transport and Defense** segment on the one hand, and **IT** on the other.

Transport and Defense accounts for 45% of our revenue and IT the remaining 55%.

Our activity in the **Transport, Defense and Security markets** is largely related to the development, manufacture and rollout of hardware, tech equipment and the related control systems.

We design civil and military equipment and systems for use in: Air Space Surveillance, Control Centers, Navigation Aids, Signaling, Communications, Access Control, Simulation, Drones, Defense Electronics, etc.

This activity is closely linked to **investment in the development and evolution of our proprietary products, which themselves constitute a key factor that sets our offering apart from our competitors'**. Manufacturing process and supply chain efficiency are becoming increasingly important, while on-site work plays a comparatively smaller role in delivery. And this favors a largely export model.

In contrast, the **IT area** responds to a different business and delivery model. The product itself presents a new, major component, but in this case is more related to the provision of services, such as consulting, implementation, integration, applications management, outsourcing and BPO.

Accordingly, an important and essential part of this business is providing and correctly managing services and working closely with our customers. It's a **people-intensive activity**, in which volatile demand often leaves little time to react. This can result in major imbalances in resource planning and, ultimately, have an adverse impact on the profitability of the business.

Indra's IT services have seen profitability erode gradually in recent years, and that is a fact. This is due to numerous and complex reasons, such as the lack of agility in responding to these changes in demand, the need for greater drivers of product differentiation, or the growing trend of delocalization of production caused by competition from global players, with a major drive from the large Asian suppliers who enjoy highly competitive cost structures.

Compared to Transport and Defense's predominantly export model, the **IT business mostly requires a more intensive implementation and local rollout of resources in both the commercial stage and delivery**. This means that resources must be maintained in all markets with activity, and proper management of these resources requires appropriate scale and an excellent resource planning system.

The inherent differences in the models and their competitive dynamics have a clear and visible impact on the businesses' profitability.

To illustrate this, according to the latest officially published data (for the first nine months of 2016), the Transport and Defense markets generated around €847m of revenue, with a contribution margin of €155m; i.e. 18%.

In the same period, IT markets generated a far larger volume of revenues, of €1.104bn, but a contribution margin of just €110m; i.e. 10%. After factoring in overheads and corporate costs, this business barely makes any money at all.

And this is despite the restructuring initiatives and strategic business transformation carried out in recent quarters, which have **boosted the contribution margin by more than four points.**

This look at the trends characterizing our business model gives a clear indication of **what our main challenge, or one of them at least, is:**

To improve the contribution margin of the IT business against a backdrop of global, aggressive and growing competition.

And while this is, or could be, obvious, let me show you how important expanding margins is for the company's long-term success.

- Becoming more profitable means affording the company greater capabilities and strategic flexibility for the future.
- A larger margin provides a solid base and the resources on which to build and invest in the growth of the business.
- It makes us strategically more competitive with customers and enhances our ability to react to changes in the market.
- It enables us to invest in projects and innovation, enhance our product portfolio and seize acquisition opportunities that make us stronger.
- A greater margin also provides us the flexibility and resources to attract and retain the best talent.

A more profitable company is a more attractive, powerful and competitive company, with bright future prospects for investors and customers alike, as well as for all of us who are part of Indra.

And how can we bring about this quantitative and qualitative improvement in profitability?

There are number of drivers to achieve this, but I would like to highlight the two main ones:

First, our differentiated and superior proprietary solutions. That is the way to keep our offering from becoming a commodity, whereby we could only compete on the basis of price.

Differentiation and specialization of the offering is the key factor for achieving a higher margin thanks to proprietary solutions that generate clear and tangible value for our customers' businesses. Many of the actions being taken at Indra target this.

Second, efficiency in production and delivery of our services. To achieve this, not only must we include best operational practices and excellent infrastructure and human resources management, but we must also maintain and increase our critical mass in customers and markets. **Greater scale, managed using best practices in operational efficiency, will bolster our marketing positioning and enable us to reach optimal competitiveness levels.**

These guidelines define the strategy for our IT business and are designed to deliver a structural and sustainable improvement in profitability, feeding through positively to both revenue and expenses at the same time.

In this strategic context and for these reasons, we are proposing the Tecnocom acquisition.

This acquisition, which provides a fundamental strategic boost for Indra, responds to the need to transform and develop the IT business for us to become better and stronger.

We said at the last General Shareholders' Meeting that we were going to be on the lookout for opportunities to enter into alliances or carry out strategic transactions the market could offer in both Spain and abroad.

During this reflection process, we have identified and assessed various alternative combinations based on their ability to create value. Of all of these, **Tecnocom offers the best fit and provides the strongest potential for synergies with Indra's IT business.**

Tecnocom is a Spanish ICT (Information and Communication Technology) consultant with operations in Spain, Portugal and Latin America. The company has a staff of over 6,500 professionals, of which 80% are in Spain. Tecnocom boasts a strong commercial positioning in leading businesses, such as Payment Systems, in which 90% of Spain's financial institutions are customers. It also has a solid presence in Local Banking in Latin America.

To summarize the key features of our bid for Tecnocom:

- On November 29, we announced the launch of a voluntary tender offer (VTO) for 100% of the share capital of Tecnocom.
- At that time, Indra subscribed irrevocable commitments with Tecnocom shareholders representing 52.7% of the company's capital.
- The offer price is **€4.25 per Tecnocom share**, with a mixed consideration of cash (60%) and Indra shares (40%).
- The deal is subject to a number of terms, some of which have already been fulfilled, such as **approval by anti-trust authorities. One condition is approval by this Extraordinary General Shareholders' Meeting of a capital increase exclusively to implement the exchange of shares of Tecnocom shareholders accepting the VTO.**
- The share capital increase will entail non-cash contributions involving the common stock of Tecnocom held by shareholders accepting the offer.
- Considering the number of shares targeted by the offer and the proposed exchange ratio, the capital increase (assuming 100% acceptance) will require the issuance and placement in circulation of up to **12,956,859 shares of common stock** of the same class and series as those currently outstanding.
- Each new share will be issued at a price of **€9.8461 (€0.20 par value and €9.6461 share premium).**

What benefits will the proposed transaction bring?

First, the industrial and strategic rationale for the deal are clear.

- **Tecnocom's integration will enhance Indra's positioning in the Spanish market considerably,** raising its domestic revenues by nearly 40% compared to 2015. **The deal will give rise to the Spanish IT leader.** Meanwhile, the increase in critical mass will raise the operational leverage of the existing fixed cost base, feeding through positively to our profitability.
- **It will also bolster our strategy of broadening the offer of high value-added and proprietary solutions. Tecnocom has successfully developed its own Payment Methods solutions, which strengthen and complement Indra's offer of Financial Services solutions.**
- **The companies' customer bases are clearly complementary, leaving scope to generate higher revenue**. The move opens up the possibility of **offering Indra's global solutions to customers where Tecnocom is strongly positioned** in countries such as **Spain, Colombia, Chile or Mexico**. Indra has a strong foothold in Latin America, and the addition of Tecnocom would leave us better placed to improve our scale, commercial relevance and our supply and delivery capabilities in these IT markets.
- In Spain, **Tecnocom's integration would enable Indra to shore up its presence in some of its key global accounts**, expanding the range of services and boosting revenue, while increasing the chances of loyalty and the generation of new opportunities. We also expect the deal to increase our exposure to the private sector, which has typically been more profitable in recent years.

Second, the integration would afford significant potential for value creation for Indra shareholders.

- **The marked improvement in operational leverage afforded by the deal, as mentioned above, would translate into strong potential to extract operational synergies**, mainly by optimizing sales costs and getting more out of overheads. Additional savings could materialize from the increased production efficiency, the improvement in operating model brought by the combination in capacity utilization, more balanced pyramid structures and greater potential for nearshore and offshore leverage.
- Moreover, **we expect to extract a great deal of revenue synergies from the enhanced competitive positioning based on the good fit with the existing positioning in terms of geographic footprint, customer base and range of solutions**. There is also considerable potential for new revenue through cross-selling and a potential increase in market share, above all in Financial Services, by cementing and strengthening our leadership position.
- We also identify potential additional cost savings related to the increased scale of the business, to production efficiencies arising from increased industrialization, and to the streamlining of facilities or optimization of R&D expenditure and capex.

Finally, the conditions are propitious to ensure the process is completely successful.

- Although we are still in the midst of an ambitious transformation plan, the improvement made in our corporate governance, and in risk control and management mechanisms, not to mention our increased financial stability, **allow us to undertake this transaction in optimal conditions at present.**
- Moreover, considering the companies' similar culture and values, the integration process should be smooth and easy.
- At the same time, the transaction will strengthen Indra's team and talent base in areas and markets that are strategic for the company for their strong potential and growth.
- And in this respect, I would like to stress that **we at Indra value highly the experience and ability of Tecnocom's management team and professionals**. We will make our best efforts to integrate them into Indra and I hope that they will become an integral part of Indra's team soon.

Now, to unlock the value of this deal for shareholders, customers and employees, we must face and overcome some major hurdles.

- **We will need to define the combined businesses' corporate, commercial and operating model accurately.**
- To do so, it is crucial that the **integration process be designed well and executed with rigor, diligence and leadership at all levels**. The key issues to be defined include the joint offering, the product map, the organization, the processes and corporate resources, the production management, the infrastructures and technology or the information systems. All these are complex issues which we will design in detail **and we promise excellent and rigorous execution.**
- A particular area of focus will be **people, their talent and expectations**. Both Indra and Tecnocom are knowledge-based companies. Talent and motivation will be the key to our success. We hope Tecnocom's professionals are excited about joining this ambitious project and, with their skills, both strengthen and complement the excellent team we already have. **I firmly believe that this integration will open up huge opportunities for all of them to grow.**
- Finally, **value creation for shareholders driven by synergies will be the main measure of the deal's success**. Market expectations in this respect are upbeat; **our share price has gained more than 12% since the announcement of the VTO.** To tap and consolidate this potential, we must ensure ongoing monitoring of the materialization of the commercial and operational synergies we have identified. **Our efforts will focus mostly on guaranteeing the achievement of the targets of the planned synergies and the identification of sources of additional value arising, whether strategic, commercial or operational.**

In summary and conclusion,

- **The acquisition of Tecnocom represents an ambitious strategic step forward that raises us to a higher scale and structurally improves many of the pillars of our IT business model: our commercial strength, our offering, the operating efficiency and, consequently, the Company's profitability and value.**

- We will create **the Spanish IT leader**, with nearly €3.2 billion of revenue, **and the country's leading supplier of tech solutions** in markets such as Financial Services, Energy, Industry, Transport and Defense.
- And we will strengthen our multinational position and character. **We will become an organization with over 40,000 people in more than 100 countries, with an extremely high degree of geographic, functional and cultural diversity.**

Indra is embarking on a new stage, but we remain committed to our strategic objectives and core values, which will also guide the future and culture of the new company:

- Gear work towards boosting returns and cash generation for shareholders.
- Promote the leadership and technological superiority of our products and solutions through our commitment to innovation.
- Cultivate a culture of integrity, rigor and accountability in project execution, and of robust shared assessment of risks.
- Constantly pursue management excellence and operational efficiency as a necessary means for continuously improving our competitiveness.
- Be committed to acknowledging the achievements and talent of our employees, and, unlike other companies, provide them with career planning, training and remuneration based on their objective contribution.

There is still much to do and the challenges that lie ahead in this new stage will surely present difficulties and uncertainty, but if we execute this deal well, **we will come out stronger.**

On behalf of the management team, I pledge to generate the value expected for our shareholders, customers and employees. And for our staff, I would like to thank you for your extraordinary efforts day in and day out to promote our company's name, prestige and solutions across the globe. And I hope to give a warm welcome to Tecnocom's professionals soon.

And to all of you, I thank you sincerely for the trust you continue to place in us to face this new stage.

Thank you