

2018 General Shareholders Meeting

Chairman's Address

Good morning, ladies and gentlemen, and welcome to the Indra Ordinary Shareholders Meeting

It gives me great satisfaction to address you to analyze the 2017 results, speak about the main actions and initiatives that we have undertaken this past year, and share our vision for the future built upon our new Strategic Plan. As you already know, we presented them this past November.

Since previous General Shareholders Meetings dating back to 2015, we have been undergoing a deep restructuring and transformation program to modernize the company and improve our competitiveness.

I believe that today we have clearly achieved a great deal of these objectives in this regard, and the company, in addition to its stabilized financial situation, is well positioned to grow profitably while we continue with our transformation

Starting with our 2017 figures, we can see how order intake has grown 18% to 3,248 million euros thanks in part to the incorporation of Tecnomcom and the organic growth of the IT business

- If we were to exclude Tecnomcom's integration, consolidated since 18 April 2017, order intake grew by 10%, which is also proof of Indra's improved organic business.
- The acceleration in the fourth quarter is particularly salient, as we achieved 28% year-on-year growth in reported terms, 30% in local currency, thanks to the contribution of the Information Technology business (in which all its vertical markets grew) and also the contribution of the Defense business.
- With these data, the order book, as an indicator of future turnover figures, reached €3,612 million by the end of 2017, which is 15% higher than our order book at the end of 2016.

Revenue grew to €3,011 million, thus entailing a 11% growth in local currency, 2% if we exclude Tecnomcom's contribution.

It is relevant to remark that 2017 is the first year in which we grew in revenue since 2014, probably even earlier because, as you all know very well, of the write-offs made against the 2014, 2015 and 2016 accounts due in part to undue recognition of revenue in previous years.

- The larger growths have come from the elections business, since 2017 has been a seasonally favorable year for projects of this sort. The Energy and Industry market has also grown, with greater dynamics essentially in the Oil & Gas sector and Air Traffic business.
- Likewise in Sales, during our prominent fourth quarter performance, we grew 20% in local currency, and an 8% growth if we were to exclude Tecnomcom

- In relation to the geographies, there was notable growth in the areas of Asia, the Middle East and Africa, also mostly associated with this powerful business that we have had in this past year of elections – and I should also mention the positive performance in Spain, which offset the performance of the remaining geographies such as Latin America, which had a more even performance.
- Turning to Latin America, I would also like to underscore that after the significant write-offs of 2015 and the substantial restructuring in the past, we have seen steady improvement in the critical metrics of the geography, and the notable improvement of the contracts that we had in 2017, we can be hopeful for the future performance in sales and profitability in the region.

Operating expenses increased by 10% in reported terms to €2,803 million, with a virtually flat performance excluding Tecnocom.

Profitability in 2017 continued the positive improvement course that initiated in the previous year.

- EBITDA grew by 16% to €266 million. This is an 8.8% margin and an improvement of 0.3 percentage points versus 2016. It should also be borne in mind that in 2017, we began to incur Tecnocom restructuring costs and without these costs, the EBITDA margin would have been 9.4% instead of 8.8%.
- EBIT, which is the margin metric with which we, the sector, normally measure ourselves, grew by 21% in 2017 to €196 million, with a standing 6.5% margin, half a percentage point above the 2016 figures.
 - The margin for Information Technology grew to 3.2%, versus the 0.1% reported in 2016, primarily because of the contribution of the elections business that had a higher average margin, and the slight improvement in the Financial Services and Public Administrations markets. As I've already mentioned, the 2017 EBIT margin has been positively influenced by the elections business, and while it has had an underlying improvement in any case, it is still less than many of our competitors in the sector
 - In turn, the Transport and Defense business attained an EBIT margin of 11.6%, somewhat lower than the 13% of the previous year, essentially due to the descent in the activity of the Eurofighter Program, whose significant contribution to the margin we haven't been able to fully offset with the remaining activity.
- Net earnings grew by 82%, reaching €127 million versus €70 million in 2016.
 - This improvement entailed a 73% increase in the net profit by basic action.
- Cash generation remained at levels similar to the previous year, reaching €186 million in 2017.
 - The operating improvements have been the main factor in the increase of this operating cash-flow before working capital, which grew by 16% to reach €264 million.
- Lastly, net debt stood at €588 million in 2017, above the €523 million in 2016, primarily due to the acquisitions of Tecnocom, Paradigma and GTA, and the consolidation of the debt of these companies, which totaled an increase of €279 million.

- However, and due to the growth of profitability, leverage stands at 2.2 times the EBITDA figures, already below 2.3 figure at the close of 2016, and the average cost of the debt also stood at 2.2%, improving by 0.6 points versus 2016.

As you can see, the metrics achieved in the different magnitudes have been positive and also met estimations for revenue, EBIT and free cash flow already reported to investors and analysts.

And I would also like to mention or emphasize two points here:

- Firstly, the annual results are not easily estimated and therefore it is difficult to meet forecasts because at the beginning of the year, the Indra business had little visibility, only a small part of the business had visibility because of the very short lifecycles in most of the projects in this regard.
- ... it also should be mentioned that during 2017, profitability was favored by a *mix* of projects differing from our scheduling, with a greater weight on the elections business, which calls for us to continue raising the profitability of our business to absorb low seasonal periods in the electoral cycle and the expected reduction in Eurofighter program activities in 2018.

Afterward, if we take stock of the cycle that began in 2015, the results speak for themselves in that the restructuring had a positive impact and the transformation that we carried out also had a positive impact thanks to our 2015-2017 Strategic Plan, whose initiatives have established the situation and yielded profits for the company.

I believe that this is a good foundation to begin a new phase, though we clearly continue with unresolved challenges, deficiencies that we should rectify and new requirements inherent in market demands.

Here is a quick summary assessing what we have achieved:

- Our operations have improved ...
 - We have a heftier weight of greater added-value solutions
 - Minsait is fully operational as the vehicle driving IT business transformation, with over 2,700 professionals and growth well above the IT average
 - We have a very solid pipeline in Transport and Defense, and we believe that we can benefit from a strategic environment that is favorable for this business
 - We have already implemented most of the cost reduction and efficiency improvement plan
 - And of particular importance, we now turn to the final two positive aspects of this cycle. The first is that we established and consolidated suitable control and management processes to

enable the company to structurally transform how we manage the risks of offers and projects.

- The second aspect is that we have radically fortified the culture of compliance in the company based on values such as integrity and transparency

And, as I had anticipated, there are still challenges left to complete or in which we haven't progressed as quickly as expected. These circumstances have certainly slowed down our transformation process:

- We weathered a macroeconomic environment that was more adverse than expected, especially during the first two years of the plan, and it still affects some key regions
- We faced difficulties that were greater than expected or we failed to foresee their full scope when restructuring our IT business, and a poor transport market performance compelled us to restructure parts of the market in 2016
- And we have had to face provisions greater than the ones forecasted for low-profitability projects (mainly generated by Brazil and the transport market)

While we continue working on these pending challenges, it is also essential to strategically guide and prepare the company to rise up to the challenges we are facing in the technological environment in which we compete.

A highly dynamic environment that is not only rife with opportunities for growth and to create value, but also extremely demanding and tremendously competitive.

Indra is in an excellent position to seize these potential opportunities, but, in order to succeed, we will have to respond to the intense and growing demands imposed by an evolving technology industry

With a view to identifying what initiatives and necessary strategic changes to take to reach our potential, we have been conducting an in-depth strategic reflection since April 2017.

With a fully engaged board of directors, main company executives and the support of external consultants, we have carefully examined relevant market trends and the expected performance of our business activities. On this basis, we framed the strategic lines that should be established for the future of the company.

This reflection resulted in the new strategic plan for 2018-2020, mapping our path toward growth and profitability, and enabling us to sort initiatives and priorities when using resources.

The strategic plan is deployed across four major action lines:

- Implementing a new, specialized operational and organizational model for the company and its businesses
- Continuing to bolster the progress of our product portfolio and transformation of our offer
- Defining and incorporating new commercial processes and tools to galvanize our turnover growth
- Executing efficiency and productivity improvement actions to significantly enhance operating margins

Our strategic reflection initially resulted in the implementation of a new organizational model and a revamped corporate governance model.

While this new model enables us to be more agile, flexible and accountable for the results, it also simplifies and clarifies our organization.

In particular, one of the profound and most visible changes arising from the new model, which has also been put before this Meeting today for approval, is the grouping of the set of our information technology businesses into a new corporate entity inside Indra.

For the first time, the IT field as a whole, with its vertical markets and horizontal, support and production units, are integrated organizationally into a new entity, which is already improving this business's capability to transform because the common vision and agility in decision-making are already being felt. The new model also helps guide the business toward the areas of greater value and growth within the specific scope of information technology.

With a view to leading this new entity, Cristina Ruiz has been appointed Executive Director with full responsibility over all IT businesses and reporting directly to the Chairman. With the same objective, Ignacio Mataix was appointed Executive Director this past January to carry out equivalent functions over the Transport, Defense and Air Traffic businesses.

Similar to our developments affecting IT, we can also harness the organizational integration of the Transport and Defense markets to better avail ourselves of scale economies, generating joint opportunities, rupturing silos and boosting industrial transformation initiatives on markets that are often highly transversal. The major window for growth and improvement in these businesses is essential for the present and future of Indra. We are facing the daunting challenge of benefiting from the powerful potential for growth and positive perspectives afforded by the geostrategic and competitive context existing in these markets today.

I believe that we are already reaping the benefits of the new organization in clearer assignments of responsibilities not only within the businesses but also between businesses and corporate functions, and with quicker decision-making.

But the key to this new organizational arrangement's ultimate success calls for us to work with transparency, together as a coordinated team and respecting the responsibilities, duties and functions of every individual

The next point in the strategic plan entails boosting the development of the catalog of products and offer sophistication. We are committed to developing end-to-end value propositions for the core businesses of our customers thanks to our extensive vertical knowledge of their particular businesses. We also want to selectively solidify and complete our portfolio of proprietary products.

Consequently, and in light of this second point, the plan contemplates relevantly increased investments that will reach figures of between €150 million and €200 million for the 2018-2020 period, which virtually doubles the previous period.

The third point of the plan entails a deeply rooted transformation of the commercial field to become a sales-oriented organization. We are defining a set of measures, models and tools to hone this new, more direct and more aggressive approach oriented for generating greater growth.

We are working with multiple interrelated elements such as new sales force assessment and compensation models, implementing new commercial monitoring tools, and perfecting the collaboration between different units to improve our go-to-market strategy.

And, with a special criticality, one of the essential keys of the Plan is based on the strategic improvement of our efficiency and productivity to increase the operating profitability of our businesses. Improving efficiency is a never-ending endeavor, since there is always a potential to improve insofar as efficiency in this highly dynamic market, one in which customers are increasingly asking more from us.

We have defined and are implementing an ambitious plan of efficiency, optimization and productivity improvement initiatives. The plan is built upon lean methodologies, organizational simplicity, and a more intensive usage of automation, to gain a deeply rooted transformation in our production and delivery model.

Additionally, there is a series of elements that will be key for the transformation and growth of our businesses: the renewal of our internal systems, new actions to improve our brand, the bolstering of our innovation model and, especially important in our industry, actions with all areas related to talent management and cultural transformation

So why are these aspects so important? I'm not going to say anything you don't already know ...

Indra is a technology company built upon knowledge and innovation. As such, our critical assets are intangible: the talent of our professionals, intellectual property of our solutions, and the trust our customers place in us

All of this, whether directly or indirectly, depends on and is the result of the work of our professionals. Our professionals design our solutions, execute our projects, render our services and earn the trust of our thousands of customers worldwide every day.

Companies such as Indra who are driven by knowledge and talent draw from their people, their inspirations, their motivations, their sense of belonging, and their commitment. I therefore assure you that the extent of our success in this new phase will be the result of our magnificent team of professionals.

Perhaps you noticed the screens at the entrance with the message “El núcleo eres tú”, meaning that “you are the core”. This slogan pervades the start of our cultural transformation campaign that will take place in the coming quarters. Because, without any doubt, Indra's core is in the people who work for our company.

Consequently, to achieve success, we must respond to the needs, expectations and vital aspirations of the people constituting Indra and whom we want to attract to this project.

We should be an attractive project for global talent. And global talent aims, seeks and requires a certain cultural environment in which to grow.

In this area, our own professionals tell us that we are still facing major challenges and deficiencies.

We should also consider the new paradigm in our sector that the demand for technology specialists is increasing year after year in the EU and Spain. According to the European Commission, 40% of EU technology companies cannot find the professionals they need, and we are by no means an exception at Indra. The EU estimates a deficit of 500,000 ITC specialists in Europe by 2020

This lack of talent is also causing ferocious competition to hire the best and most qualified profiles.

Annual job turnover rates in the technology sector are the highest in the labor market in both the USA and Europe. Spain also has elevated turnover rates, which are nearing 18-20% annually at the industry level.

It is particularly striking to see annual turnover rates as high as 60% for professionals with less than 3 years of experience according to industry data from 2017.

We clearly need to improve our relationships with our younger employees, since they are the ones forging a new paradigm in their relationship with the company.

To give you a clearer idea of our efforts to incorporate young professionals, I'd like to simply point out that this year we expect to hire 3,000 young people in the company, 2,000 of them in Spain.

This is not a matter linked to salary or any specific company: in the United States, the average seniority of employees for the leading technology companies in Silicon Valley as a whole is between 2 and 3 years ...

We'll have to learn how to cope with this new paradigm: perfecting our ability to attract young professional and designing knowledge management processes and systems that account for this dynamic. Above all, however, we need to incorporate the necessary cultural and organizational changes so that the best professionals want to not only join us but also stay with us.

The talent crisis is exacerbated because, as the demand for specialists rises, university enrollments for engineering studies in Spain has reduced by 30% over the past decade as part of the stark and steady decline of such vocations –in science, technology, engineering and mathematics–, which for women, has also become one of the greatest challenges in the industry. Women make up only 3% of science, technology, engineering and mathematics graduates in the European Union.

The presence of women in our company is of great importance in the sector: 34% of our professionals are women.

Women also tally in approximately 20% of the company's executive and management group, which puts us way ahead of comparable technology companies.

We are making concerted efforts to ensure that diversity and equality are the main catalysts in becoming the talent-oriented organization we aspire to be.

To this end, we launched an ambitious equality and gender diversity program in the first quarter of 2018 that will gradually make us even more inclusive.

Some of the initiatives already underway include co-creation actions with groups of employees to define our equality strategy, group coaching sessions with women from the middle management team and programs such as "Inspirational Women" to spotlight women at Indra with a potential to be role models for others.

Lastly, while we are still concluding a wage gap study to assess our situation in this regard, I can nevertheless share some of the preliminary results, though they at the moment only refer to Spain, which I consider to be reasonably satisfactory, with scarce gender wage difference. However, we have identified key differences in certain specific groups or specific geographies, which we are analyzing in depth to adopt the corresponding action plans, of which we will inform you accordingly.

Another cornerstone of action in this talent strategy, to which I refer to so much because it is critical for developing our strategic plan, is to make the most of the capabilities of the excellent group of professionals who are already working at Indra as either new hires or employees who have been with us for many years.

Indra has traditionally made substantial efforts in training employees and has dedicated many resources in this regard.

To fully understand the extent of our efforts, which were channeled through the Indra Open University, I should simply comment that this year employees have submitted over 35,000 training requests for 1,500 courses in our catalog. We scheduled 921 courses at the company throughout 2018 with an average of 32 hours of technical and functional training per participant, mostly as in-person training.

However, we consider that a renewed effort in training our entire staff as a whole will be a strategic objective in this new phase and an essential lever to have professionals prepared for current and future challenges

These initiatives can only be executed and successful in the context of a complete cultural change.

A transformation that will make us a talent-oriented organization, generating a new mindset and new sense of belonging to Indra.

The cultural transformation that we want to carry out affects us all, aims to completely renew our way of working and places people at the center:

In the process in which we are defining a new culture, we intend to address and propose solutions to the key challenges that we set as a company:

- Improve the commitment and job satisfaction of our professionals
- Improve communications, shared knowledge and collaboration among company groups and areas
- Achieve greater transparency and openness to generate a way of working based on trust
- Identify needs and improve the experience of our customers through a commitment to innovation
- Develop a new feeling of belonging based on a shared purpose and unique company values.

We are already working with specific initiatives to ground and implement the changes that will be shaping this transformation:

- Foster flexibility at work, permitting reconciliation and family balance through advanced forms of remote working arrangements enabled by a profound revamping of our internal systems
- Create cross-cutting collaboration tools that harness new digital ways to enable different parts of the company to work together and break the "silos"
- Revise the *recruiting* process from an *end-to-end* point of view and align the new *customer experience* and *employee experience* models
- Render our administrative processes more agile, working in a more advanced way with simpler procedures and less bureaucracy

- Transfer the impact of the company to different Indra groups: as the company contributes to improving the world

As you no doubt can see, our cultural transformation is a strategic need and we are taking steps so that our employees, regardless of different expectations, family and personal situations, find Indra to be the right place for their aspirations.

An environment in which they feel and really see that they really carry "the core of Indra" inside themselves.

In parallel to the strategic initiatives that prepare us for the future, all of our efforts today focused on achieving the 2018 objectives

- The current fiscal year has entailed some very daunting challenges: it is a year of transition between periods of restructuring and growth. It is also the start of a new strategic cycle, one in which we are designing and rolling out new initiatives for renewing systems, promoting training and cultural transformation initiatives, which today represent significant costs whose fruits we will only see much later.
- Our ambitious budget for 2018 entails a greater challenge compared with last year. The project mix for 2018 has a much lower contribution from the elections business and the reduced Eurofighter project activities combined with demanding targets for markets such as transportation compel us to make efforts that are greater than last year.
- Attaining these business and profitability objectives is no doubt the priority of all Indra teams at this time
- On July 27, we will present the results of the first half of 2018, where will I share our performance to date with you in greater detail.

Turning to our compliance with the third recommendation of the code of good governance for listed companies, I would like to share some of the most relevant aspects in corporate governance and the changes made since our last ordinary general shareholders meeting, namely:

- In application of the criteria for renewing independent directors, which was already reported during the last ordinary general shareholders meeting and constituted of not proposing the re-election of independent directors who held the office for three statutory mandates, no motion to re-elect Daniel García-Pita is made at the present general meeting. With a view to maintaining the same number of independent directors (7 of 13), the board submits a proposal from the Appointments, Remuneration and Corporate Governance Committee to the general meeting to appoint a new independent Director, namely Ignacio Martín San Vicente, who is in attendance at the present general meeting.
- I would like to first of all thank Daniel García-Pita for his dedication, loyalty and commitment to Indra during the nearly 28 years he spent with us in various roles, where his leadership on the Board of Directors as Vice Chairman and Lead Independent Director has been exemplary and the keystone to overcome past difficulties

- Turning to gender diversity among our board members, the resulting composition of the proposals submitted to you today entail maintaining three women on Indra's Board of Directors, with one woman in the category of executive directors, one of the few among IBEX companies. With this composition, women directors represent 23% of the total board members, another step in the company's firm commitment to reach 30% by 2020 as recommended by the code of good governance.
- The amendment in the Indra director remuneration policy 2018, 2019 and 2020 is presented to the present general meeting. The amended policy primarily adapts to the organizational changes comprising the elimination of the office of President & COO and the appointment of two new managing directors for the IT and T&D businesses respectively. Variable remuneration weightings and objectives for executive directors were also specified and adapted to the 2018-2020 strategic plan as reported in November. Following the proposed amendments, the remuneration policy will continue complying with the best international standards and recommendations of the code of good governance for listed companies.
- Turning to the matter of risk control and management, the board and audit and compliance committee supervised and fostered the work of the internal audit division, risk management division and compliance unit, and approved numerous initiatives and procedures last year.
- I would also like to highlight the board's firm commitment to transparency and dialog with our stakeholders to not only recount the events of 2017 but also share the future horizon and expected performance of our company. In this regard, I should mention our actions on November 30, the second day of Investor's Day, where we made the company's strategic plan for 2018-2020 public, in addition to our over 60 regular roadshows that we held with investors, analysts and proxy advisors throughout the year

I am also required to inform you on the level of Indra's compliance in 2017 with good governance recommendations.

As you may have already read in the Annual Corporate Governance Report published in March together with the Financial Statements, Indra had an elevated level of compliance with good governance recommendations. In 2017, we were only noncompliant with one of the 64 recommendations, namely Recommendation 48 (companies with elevated market capitalization should have separate appointments and remuneration committees). The company has opted not to separate its existing Appointments, Remuneration and Corporate Governance Committee for the following reasons: (i) the members of the appointments, remuneration and corporate governance committee have the knowledge and experience necessary to handle matters of both committees; (ii) a single committee can handle the actual volume of matters to address; and (iii) doing so would unnecessarily increase the number of committees, number of work hours and cost of the management body.

As you can clearly see, my dear shareholders, we have embarked on a far-reaching multi-annual transformation plan that should enable us to achieve our strategic objectives and benefit from the opportunities of a market as dynamic as the technological industry.

Let's not deceive ourselves regarding the challenges and deficiencies that we still have, with which we are very transparent and are well aware of our obligation to comply with the committed annual results. However, should we prove to be capable of attaining our short-term business objectives while executing the transformation contemplated in the strategic plan, Indra will have achieved significant value creation.

Allow me to conclude by expressing my thanks and appreciation to all the professionals working at the company for their efforts and dedication to make Indra better every day. They are really the core of the company.

I also wish to thank all of you for another year of this incredible bond of trust that makes all this possible.

Thank you very much.