



General Shareholders' Meeting 2019

Chairman's Speech

Hello once again, Ladies and Gentlemen. Welcome to Indra's 2019 Ordinary General Meeting.

It is my pleasure to address you once again this year to evaluate the profits made and comment on the main actions and initiatives that we carried out in 2018, as well as to share the future perspectives for our company.

Let's start by analyzing the profits for the year, which continue to improve structurally and give more visibility to our future business.

Net hiring increased 9% in local currency rising up to **3,437 million euros**, thanks to the contribution of our acquisitions and organic business growth.

- Contracts in the T&D division grew 8% in local currency, mainly driven by the Transportation area, which continues to recover in both volume and profitability.
- Contracting through the Minsait (IT) Division grew by 10% in local currency in comparison with 2017, which was especially noteworthy when we consider that 2017 was the year included the one-off contribution to an electoral project in Africa. This means that Minsait's contracting growth in 2018, in every aspect, has made it possible to compensate the effect of this unique project and surpass the previous year's figures.
- With this data, **the order book, which is an important indicator of future sales, grew 13% and reached a record figure of 4,065 million euros at the end of 2018**. We only have to remind ourselves that **at the end of 2015 the portfolio was 1,000 million euros less**.
- The speed at which these contracts will be reflected into income will depend on the type of projects and services contracted and their implementation schedules. However, I would also like to highlight **that the ratio of order book to sales has improved in both T&D and at Minsait, in comparison with 2017**.

Income in 2018 amounted to 3,104 million euros, representing a 6% growth in local currency.

This year, we have grown again in sales figures just as we did in 2017.

- **In T&D, sales have increased by 1% in local currency**, with a very significant contribution from the Transportation and Air Traffic departments, which together grew by 7% and offset the already expected fall in the Defense business, mainly due to the lower contribution from the Eurofighter project compared with the previous year.
- **Minsait's income grew by 9% in local currency**, mainly due to the inorganic contribution of acquisitions, as well as the positive dynamics in **Energy & Industry** and **Financial Services, both with double-digit growth in local currency**. We also highlight the good performance of Telecommunications and Media market in a particularly competitive context.
- From a geographical point of view, **the strong income growth in Spain stands out (12% more than last year) and in America (4% more in local currency)**, which together continue to represent our main lines of business with 70% of the total sales. We also experience growth, although smaller, in Europe and AMEA, if we exclude the seasonal effect of the Elections business that I mentioned earlier.
- Within the overall positive dynamics of the various businesses, we must highlight the **outstanding performance of Minsait's digital services segment, which are those that implement the specialized capabilities of Indra associated with Digital Transformation**, in which Sales experienced a growth of **28% in local currency (17% in organic terms), and have reached 402 million euros**.

In 2018, profitability continued in its path of positive improvement seen in the previous year.

- **EBITDA grew by 10% and reached 293 million euros, which entails an EBITDA margin of 9.4%** compared to 8.8% in 2017.
- **EBIT in 2018 improved by 2%, reaching 199 million euros, placing the EBIT margin at 6.4%**, a figure very similar to that of the previous year.

However, **even in the case of similar profitability figures, this year's profits are significantly and structurally better if we consider the following:**

- Income **has grown organically in comparison with the previous year**, compensating and overcoming the fact that we **did not have the considerable specific contributions from the Electoral Processes in Africa or the Eurofighter project that we had received in 2017**.
- It should also be noted that **this year's margin is absorbing an additional increase of more than 20 million euros due to the acceleration of depreciation and amortization charges** related mainly to the commencement of the marketing of finished intangible assets.
- And finally, we must consider that **the application of IFRS-15 is having an impact on income recognition**. Until this IFRS-15 accounting standard is gradually applied in the coming years to 100% of the income, there will be some delay in such recognition, but we think that **its application improves the quality, stability and accuracy of the profits and losses we are reporting**.
- **The Net Result of the Group reached 120 million euros**, which represents a decrease of 6%, mainly due to the extraordinary decrease in income originating in Brazil, which has had an impact of around 20 million euros.
- **Cash Generation remained in line with the previous year at 168 million euros.**
 - Investment was 79 million euros, almost doubling that of 2017, in line with the commitment for greater investment included in the Strategic Plan.
- And finally, **we continue to reduce Net Borrowing, which stood at 483 million euros at the close of 2018.**
- **The combination of a 10% higher EBITDA and the aforementioned reduction in net borrowing puts us at a leverage level of 1.6 times that of the EBITDA at the close of the year, below the level of 2.2 times reported at the closure of 2017.**

As you can see, the 2018 profit and loss results show Indra's progress in the path towards a growth in income, in the improvement of profitability and of capital structure and in the reduction of Borrowings.

We have met or exceeded the objectives committed to the financial community for the year.

And at the same time, the contracting and portfolio growth, which is higher than the revenue, provide more visibility for our growth in the future.

These are positive results, achieved in a context of high pressure from competitors.

And they are also the result of a path of transformation and renewal that must continue because the environment continues to evolve, grows in demand and our profitability is still low.

Along these lines, we continue to successfully deploy the initiatives of the **2018-2020 Strategic Plan in four major lines of action: the implementation of a new organizational model, the evolution of the product portfolio, new business processes and tools and the continuous improvement in efficiency.**

- Firstly, **the grouping, for the first time, of all the vertical and horizontal IT businesses, in a new corporate organization, a fully-owned subsidiary of Indra, has been one of the most visible milestones of this transformation and has involved a series of profound changes in the management model and Corporate Governance.**
 - This new organization **has allowed us to gain agility and has had a clear positive impact on improving management**. Today, we have a rejuvenated team committed to the company's new objectives, which I consider a very important asset to enable us to face this new stage.
- **We have also strengthened the evolution of our product portfolio and the sophistication of the offer to maintain our technological leadership in the digital era.**
 - Last September, we announced the new commercial offer structure for all markets, the launch of **Minsait** as the new Information Technology brand for businesses, as well as the complete renewal of Indra's brand and values. Since then, we have used the **"At the Core"** concept as the motto of Indra's ultimate mission: **to be our clients' technological partner of, acting on the center of their business and their critical operations.**
- The next objective we are working on is **the deep transformation of Indra's commercial scope to gain commercial acceleration and become a Sales-oriented organization.**

- **And fourthly, we continue executing plans and actions to improve efficiency and productivity to increase operating margins.** These efficiency plans have focused on the optimization of our processes by using lean methodologies, for better pyramid management, for the identification and elimination of duplicities and in the optimization of corporate costs.

And, as a fundamental piece to become the company we want to be, we continue to promote Cultural Transformation.

Last year I explained to you the essential importance of **attracting and retaining talent**.

We are a technology company based on knowledge and innovation, and as such, **our main assets are intangible: the intellectual property of our solutions, the skills and knowledge of our professionals, and the trust that our customers place in us.**

Everything, directly or indirectly, **depends on and results from the work of the people who form part of Indra.**

Consequently, to be successful we must be a company that knows how to respond to the needs, expectations and aspirations of these people and offer them an attractive company culture.

To that end, **a series of initiatives that form a Complete Transformation Program that we have called “Change from the Core” have been developed. A transversal program involving the entire company, which is led by Cristina Ruiz and in which all of Indra’s first executive line participate.**

Some of the initiatives **are up and running and specific results can already be seen**, such as the **Space renovation program**, with the creation of new, more attractive, and collaborative work environments, or the **“Easy Working” flexibility program** that seeks to offer employees the possibility of working away from the office and thus facilitate their work / family life balance.

Both initiatives have been very well received by our professionals.

Along the same line, we pay the utmost attention to diversity and equality as one of the main ways to strengthen our new culture. To that end, in 2018 we launched an ambitious **Gender Equality and Diversity Program** that is helping us to direct our actions to be an even more inclusive organization.

We are working on multiple fronts to identify the barriers that women face when developing and progressing in technological careers, listen to their concerns, identify our situation regarding the salary gap and **design actions and initiatives that will reduce and eliminate everything that hinders our progress in the field of diversity and gender equality.**

Why is Cultural Transformation so important and why are we investing so much time and resources in these initiatives?

Creating an attractive and inspiring work environment for talented professionals is fundamental to our future. For this reason, we must make people the focus, putting them at the core of our actions, which **is precisely our motto of transformation: “At the Core.”**

We want to be the best platform for your employees to develop their “vital project”: we want to be the best professional environment in which to grow, learn, have real impact and develop integrally.

This purpose is completely compatible with Indra's business purposes; in fact, it is the best way for Indra to achieve its long-term objectives in the era of talent and knowledge.

We want to offer **an exciting project in a constructive, open, flexible and respectful environment with diversity.**

We believe it is a noble and worthy purpose **we can all share here:**

- Thanks to the positive business performance, **we create and maintain high-value employment** related to innovation and technology. **We closed 2018 with more than 43,000 employees, about 9% more than in 2017.** I would also like to highlight that the employment we generate is not just jobs. **They are jobs with high added value and development opportunities in Spain for the most qualified people: more than 80% of our professionals are highly qualified engineers, graduates or technicians.** We honestly believe that, through our lines of business, we make a contribution of value to society in terms of qualified employment, stability and a future which is hard to match or compare with others.
- **At Indra Spain alone**, the workforce has increased by 4,457 people in the last two years, since January 1, 2017. **In 2018 alone, more than 2,700 young professionals in Spain have joined the company and more than 7,000 in the last 3 years.**
- **We continue to advance with regards to the presence of women in all the levels of the company, and although salary gap analyses show that there is still work to be done, the gap has reduced when compared to 2017 and does not reach 3% within comparable professional groups.**
- **This year, we have invested 97% more, almost doubling 2017's figures**, mainly in R&D and product development, **but also in acquiring new and better workspaces, in modernizing our common areas and in renewing our tools and systems to be more efficient and to facilitate work and family conciliation.** A clear sign of the interest awakened is that more than 3,000 employees have applied for the new and flexible "Easy Working" model, which seeks to facilitate this work and family life balance.

The aim of investing in people and continuously improving their conditions does not make us lose sight of the fact that as a company we are subject to the laws of the market in a particularly demanding and competitive industry, and that we still have unresolved challenges and shortcomings that we have to overcome.

The main challenge we face is the competitive pressure across all businesses and geographical areas, with particular intensity in the Minsait markets. This is a pressure that customers transfer to increasingly competitive, fragmented, and complex contracting processes that end up having a direct impact on our profit margins.

Despite the effort we are making in costs in recent years, **we need to continue working on improving profitability and productivity, as well as solving many other shortcomings.**

At Indra, we operate with CapEx and OpEx restrictions, we have strict limitations of our direct and indirect personnel structure, and, clearly, we still need to improve our systems, spaces, media and, in short, on all types of resources.

Despite this and as I have already mentioned, **we are investing in systems to improve business management, real estate due to various cases of obsolescence, in a cultural transformation to modernize our company and we are also investing in acquisitions that complete our products or improve our competitiveness for our customers. All this, at a manageable pace.**

As we also know that, if we want to grow, invest and improve, **we have to maintain an annual profit and loss statement that continues to promote trust from markets and shareholders.**

For this reason I think **it is important that the 2018 profit and loss results demonstrate that all transformation, investment, efficiency and cultural change initiatives are producing results** and that we have been able to increase our contracting, income and the EBITDA and EBIT compared to last year and **do so, as I said before, in a structurally more solid way.**

I think we are in good condition to face new strategic challenges if there was an opportunity.

Our industry is undergoing an accelerated process of change and transformation, which is generating numerous **business mergers** in many of the sectors in which we operate.

For example, the new European R&D programs in the Aerospace and Defense sector require **sufficiently large groups with diverse skill sets** that are capable of managing long and complex technological projects with large sustained investments over time.

In this regard, as you probably know, on June 14 and 18, we notified two Relevant Events to the CNMV in which we confirm that **we are holding advanced talks with Rolls-Royce to explore the possible acquisition of a controlling interest in ITP**, one of the world leaders in the Aerospace and Defense industry.

- **This operation would be a real transformation for Indra:**

- It would give us greater access, scale and technological capabilities in the Aerospace and Defense field to better compete in international markets, win major contracts and have access to tier 1 customers.
- It would also improve our business mix by increasing the weight of the private sector and diversification with respect to the Defense investment cycle.
- Additionally, it would provide greater visibility and stability to our cash flow generation due to the intrinsic long life cycle of the ITP programs, which can last up to 40 years.
- **It is an opportunity to acquire a high-quality asset in a very attractive sector, because:**
 - ITP is one of the few global tier 1 suppliers of the aviation engine industry, and it presents a positive business outlook after gaining access to a robust set of programs, which will generate substantial cash flow in the coming years.
- **In addition, there is a potential for value creation in ITP that the integration with Indra can materialize:**
 - Expanding and reinforcing ITP's relationships with other major industry clients besides that of Rolls-Royce.
 - Opening new areas of operation in the aeronautical industry for Indra's digital, sensorization and software development capabilities, through Minsait.
 - As well as achieving savings on costs and efficiency in Purchasing, Systems, Engineering and corporate costs

A final decision has yet to be made in this regard and it cannot be known if the talks will end in a deal being made and the operation will be successful.

Unfortunately, confidentiality commitments with regulators and competition **prevent us from explaining to the markets the specific financial parameters in which we are proposing the operation**, which is obviously generating uncertainty and the consequent impact on the share price.

We trust that, when we can, we will explain the terms of the possible acquisition in detail and **its benefits will be appreciated to the fullest extent**.

However, whatever happens, I would like to emphasize that, despite the attractiveness of this operation, **Indra's prospects are very positive regardless of its successful completion**. As I mentioned earlier, we have structurally improved profitability, we are growing organically, even at double digits in the digital segments with the highest added value. We have executed and successfully completed complex corporate operations, and we have a better capital structure. **Therefore, we are very optimistic about our future in any of the scenarios**.

Returning to the present, given the importance of the strategic initiatives that position us for the future, our attention is now focused on meeting the 2019 Objectives.

- We have an ambitious budget that entails a greater challenge than that of the previous year.
- And meeting these business objectives is undoubtedly the priority of all of Indra's teams. Driving the company forward to consolidate its improvements and persevere in the positive path of recent years also includes our commitment to the shareholders.
- **Our challenge is to comply with the guidance for 2019 that we have announced to shareholders, in which we hope to achieve:**
 - A one-digit growth in income in local currency
 - A growth of more than 10% in EBIT
 - And Free Cash Flow to deal with any variations in the working capital in the region of 100 million euros.
- To this end, it will be necessary to continue increasing the profitability of all businesses, both in Minsait and in T&D, to consolidate the improvements and the change of direction in Transportation, strengthen growth in the areas of Defense and ATM, to continue working on our efficiency and improve cash conversion.
- So, this is what we are working on. **The first quarter of 2019 was in line with the objectives set and we expect the rest of the year to go in the same direction.**

With that in mind and in accordance with the provisions of Recommendation 3 of the Code of Good Governance of listed companies, I would like to refer to the most relevant aspects of Corporate Governance and the changes that have taken place since the last General Shareholders' Meeting, with the most noteworthy being as follows:

- The **various issues related to diversity regarding the composition of the Board of Directors** (training, professional experience, age, disability and gender), in line with the latest legislative amendments and best practices in the Company which have been expressly incorporated into the Company's internal policies on this matter.
- With regard to **gender diversity**, if the proposals for the appointment and re-election of directors subject to item 6 of the agenda are approved by the General Shareholders' Meeting, Indra would reach the objective for the director selection policy set this year initially for the year 2020: to achieve **female director representation of at least 30% of the members of the Board**. Specifically, it would be at 31%, and these female members would also represent 43% of independent directors and 33% of executive directors.
- Regarding the procedures and practices of the Company on **Corporate Social Responsibility**, as well as its degree of adaptation to the norms, recommendations and national and international best practices in these areas, I would like to **highlight the adaptation which has been carried out on the structure and content of the Corporate Social Responsibility Report with the new requirements derived from Law 11/2018 on the provision of information of a non-financial nature and on diversity**. As has been the case in previous years, the standards of the Global Reporting Initiative, the most recognized standard on the subject, have been followed in the drafting of this report. Through it, Indra reports on its compliance with the Corporate Social Responsibility Policy, a reference framework to guarantee the Company's socially responsible conduct.
- This report has been reviewed by: the **Audit and Compliance Committee**, as it is a unique part of the Management Report; **as well as by the Appointments, Remuneration and Corporate Governance Committee**, to which the Board Regulations assigns authority in this matter; **it has been formulated by the Board of Directors and verified by Deloitte, S.L.**, and **for the first time ever, it is submitted to the approval of the General Shareholders' Meeting as a separate point of the Agenda**.
- Regarding **risk control and management**, the Board and the Audit and Compliance Committee have supervised and promoted the work of the Internal Audit, Risk Management and Compliance Unit, having been approved during the financial year with **the relevant updates of the Company's Risk Map; of the General Policy on Risk Control and Management and the Tax. Policy**, as well as several initiatives with the aim of ensuring the maturity and complete alignment of Indra's **Criminal Risk Prevention Model**.
- I would also like to mention the Board's firm commitment to **transparency and constant communication** with our stakeholders, with the Company promoting all kinds of initiatives to promote contact (roadshows, seminars, etc.) as well as improving the quality of such communication.

Next, I would also like to inform you about the degree of compliance with Indra's Good Governance recommendations in 2018.

- As you will have read in the Annual Corporate Governance Report, which was made public at the beginning of April together with the Annual Accounts, the degree of compliance with the Good Governance Recommendations in Indra **is very high**. In 2018, we were unable to comply with just one Recommendation out of a total of 64, specifically the 48th Recommendation (which states that high capitalization companies should have two separate Committees, one for Appointments and another one for Remuneration). The Company has not considered it advisable to separate its current Appointments, Remuneration and Corporate Governance Committee into two committees because it understands that: (i) the members of the Appointments, Remuneration and Corporate Governance Committee have the necessary knowledge and experience to deal with matters specific to the two committees; (ii) the volume of matters to be dealt with can be handled by a single Committee.
- As you all know, point 6 on the Agenda we will proceed to appoint new Directors due to the termination of the mandate of some of the members of the Board. At this point, **I would like to expressly and publicly acknowledge and offer our sincere gratitude both on my behalf and that of the entire company to Mr. Luis Lada**, who, after 12 consecutive years, the maximum time allowed, will no longer be serving as an Independent Director at Indra.

Any mention would fall short of adequately describing the added value, the in-depth knowledge and the strategic vision he has given us through carrying out his duties as part of the Board. We have been fortunate to always been able to rely on his full involvement, with **his support in the most difficult decisions and his expert advice, a fruit of his incomparable experience.** The company owes a debt of gratitude to him for the work and the value of his contribution over all these years. **Thank you very much for your help, Luis.**

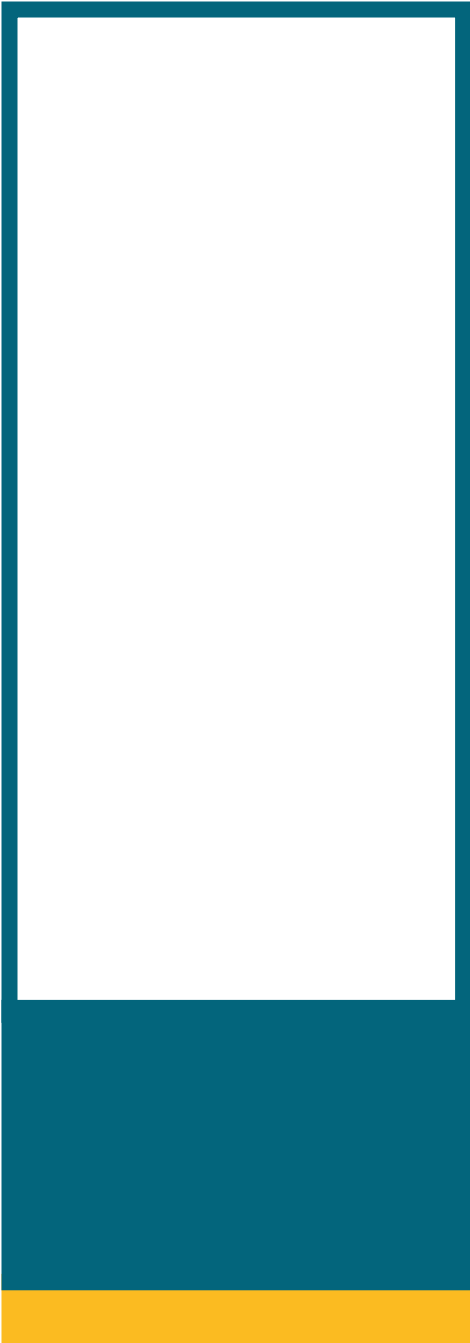
I believe **Indra is ready to give new impetus to the company and that we have to make the most of the strategic opportunities offered by the market at our disposal as well as the technological period in which we are living.**

Undoubtedly, important challenges still have to be faced, **but if we continue to do things well and improve our profitability, we have a great opportunity to create value in attractive and high-growth sectors.**

I would like to end my speech by expressing my gratitude to all the professionals and the management team for the effort they put into making Indra a better company every day and especially to **Cristina Ruiz and Ignacio Mataix for their commitment and leadership.**

Allow me also to express to all of you my sincere thanks for the trust you have placed in us for another year running.

Thank you very much.



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