Speech by the President & COO at the 2017 General Shareholders Meeting

Good morning Ladies and Gentlemen, Shareholders.

In my speech today, I am basically going to review the main aspects of our 2016 results, and present for your evaluation the increasingly positive progress of our company's key financial figures.

Then, I will illustrate some of the important features of Indra's Operational Transformation Plan, representing one of the key elements of our company's consolidation in the last two years.

First, I must highlight the Net Profit of €70 million, against the 2015 loss of €641 million.

To give you a breakdown of the income statement, in 2016 Indra reached a volume of €2.709 billion in revenues, a drop of 3% in local currency terms, in other words, 5% in reported figures, given the negative impact of the exchange rate which represented €61 million.

- The Transport & Defense or T&D segment, registered a growth in revenues of 1% in local currency terms, penalized by the downturn of the fourth quarter, due to the slowdown of some projects of the Transport & Traffic portfolio, especially those in the areas of Rail Transport, Ticketing and Urban Traffic.

- Furthermore, the IT segment experimented a drop of 5% in revenues, also in local currency terms, affected by the repositioning of business in Brazil, and our implementation of more selective criteria for outsourcing. Simultaneously, some sector-specific and geographical dynamics have hindered business performance, like the decrease of activity in regions more dependent on oil prices, the seasonality of the Elections business, or delays in some RFPs of Spain's Public Administrations.

Order intake grew 6% this year in local currency terms, or 4% in reported terms, and this growth has been particularly reduced by the slowdown experimented by T&D the fourth quarter of 2016 as a result of the significant order intake of the same period the previous year, associated with projects specific to Spain's Ministry of Defense.

Operations-related figures dropped 9% in 2016, to €2.543 billion, mainly as a result of the cost optimization plans implemented by the company and also of the impact of decreased revenues.

- Specifically, Personnel Costs for the year were €1.342 billion, a drop of 7%, derived, logically, of the 8% cutback of the average human resources volume for this period. These spending cuts on Personnel arise from the workforce optimization program, launched in the second quarter of 2015 and completed to date.

Profitability experimented a noteworthy improvement in 2016, reflected across all levels of the income statement, as I will detail now:

- The Contribution Margin of 14% in 2016, compared with 9.2% the previous year, represents an increase of 4.8 percentage points.

- EBITDA reached this year €229 million, significantly more than the €131 million registered in 2015, despite the fall in revenues. Given this, the EBITDA Margin was 8.5% over revenues, improving by 3.9 percentage points compared with the previous year.

- The favorable development of onerous project provision in 2015, efficiency plans, and the relative improvement in profitability of projects underway have impacted the increase of this Direct Margin over the course of this year.

- Below the Direct Margin, optimization programs have contributed toward an additional expansion of the EBIT Margin. This has enabled reaching in 2016 a recurrent EBIT of €162 million, representing 6% over revenues, compared with the 1.6% registered in 2015, and despite including in this figure for 2016 the €49 million in new provisions for onerous projects.

- Finally, as I have already mentioned, the company has managed to reverse the deterioration in profitability sustained over recent years, reaching in 2016 positive Net Earnings of €70 million.

Growth in profits, together with write-offs and improvements implemented in the management of working capital, have clearly transformed the company's financial situation.

Allow me to review the progress of the main indicators of the Balance Sheet and the Cash Flow Statement:

- Free cash flow generated in 2016 was €184 million, compared with the negative €50 million of 2015. Excluding the impact of the €51 million from the workforce restructuring process, plus the cash outflow of €76 million for onerous contract provision in 2015, free cash flow generation would have been €311 million.

- Operating Cash Flow before the net change in working capital in 2016 was €228 million, compared with the negative €151 million of 2015. This increase results of the improved operations and impact of non-recurring effects registered in 2015.

- Net working capital dropped to €33 million in 2016, equivalent to five days of revenues, from the €232 million of December 2015, which represented 30 days of revenues. This reduction resulted of the period's lower volume of revenues, higher level of collections compared with the period's revenues, management of providers and a reclassification of some debts with clients for the short and long term.

- Finally, the sustained generation of positive free cash flow has enabled, in turn, a significant decrease of the company's leverage, reducing its Net Debt by 25% over 2016, to the €523 million at the close of the year.

Now, allow me to focus on the progress made within the framework of our Operational Transformation Plan underway, as part of our ongoing structural improvement of Indra's situation.

An Operational Transformation aimed at achieving an operations management that is more aligned with the company's strategic priorities and with the search for maximum efficiency and excellence over the complete project cycle: starting with the offer, passing through order intake, execution and ending with collections.

With regards to efficiency, a priority focal point of the company's reorganization, the results obtained and which I have already presented are sound proof of the tangible impact of the measures implemented.

As regards planning and management in relation to our employees, we are advancing along this line by counting with more effective Resource Management that is fully aligned and coordinated with the Business' needs. Not in vain, in a company like ours, intense on highly-qualified personnel, counting with the suitable resources at the pertinent time and place is critical for optimizing the execution of our operations. Therefore, we have decided to implement a wide-ranging renewal and reinforcement of this function, providing it with new tools and procedures to facilitate more effective resource management.

As regards our proprietary products, we have embarked, across all of our businesses, on a great number of initiatives oriented toward rationalizing our portfolio and enabling their even more, if possible, efficient and orderly management:

- First, we have evaluated our product map in depth with the goal of prioritizing those of greatest potential and added value, and this has been materialized in the development of an updated catalog for each of our businesses.

- As a result of the new catalog, we have updated its roadmap and investment plan.

- Finally, we have deployed different actions aimed at reinforcing the protection of Indra's intellectual property and rights, in relation to our products.

- Last of all, we have established transversal teams and product committees in new markets, which are in charge of the orderly management, maintenance and development of the product catalog.

Closely linked with the review of the corporate portfolio, we are working on improving the efficiency and competitiveness of our delivery and production model:

- In the IT segment, we continue moving toward a more delocalized delivery model, the standardization and packaging of our products, and lean operations optimization. In parallel, we are progressively adapting our IT offer to ongoing, growing progress in automation and artificial intelligence, which will drive the sector toward new heights of efficiency in the mid term.

- Furthermore, the Transport & Defense segment has been implementing an exhaustive review of its entire production chain: seeking greater industrialization of product design, optimization of the supply chain and outsourcing policies, and in the review of processes, to name a few initiatives.

A key element of the company's operational transformation is the thorough review and improvement of the company's mechanisms for assessing and managing project risks during offer and execution stages alike.

- In the offer phase, those of most relevance given their volume or risk profile, are subject to the approval of the Proposals Committee, and even of the company's Management Committee.

- In the execution phase, new tools and mechanisms have been implemented and are in use to improve control of operations. In this regard, the mission of the Execution and Delivery Committee is to assure a much more effective and orderly control of execution, by monitoring the company's critical operations and their associated risk mitigation plans.

In the organizational realm, the new operating model across geographical, business and corporate areas is already fully consolidated, clearly defining the responsibilities of each player and, thereby, contributing toward a better control of operations while also reinforcing and simplifying our response capacity.

Finally, in geographical terms, we must highlight the profound restructuring effort underway in the company's strategic regions, particularly in Latin America and especially in Brazil, where, as you know, a majority of the difficulties and imbalances we faced since 2015 were concentrated. This restructuring has resulted in a significant downsize of the regional workforce and in decreasing the number of companies, regrouping locations and offices, and aggressively adjusting corporate and commercial costs.

- In this regard, I must mention the positive progress and already visible results of the restructuring of our subsidiary in Brazil, which in the first quarter of 2017 presented a positive EBIT margin of 0.5%, after registering an EBIT of negative €181 million in 2015. Along these same lines, 5 of the subsidiary's 7 onerous projects have already been completed or cancelled, while the 2 remaining progress as planned.

In summary, and I am about to conclude my speech, the transformation launched in 2015 is already becoming materialized in tangible impacts, as the 2016 results prove.

Nevertheless, we must continue working along the line of operations optimization and on new initiatives launched in recent months.

Among the latter, I must mention the integration of Tecnocom, which entails one of the company's main challenges in the short and mid term. Therefore, together with the President & COO of Tecnocom, we are driving and leading the tasks of the Integration Committee that supervises the process and the progress of the integration teams that comprise it.

This said, the integration of Tecnocom must neither divert our focus nor waive our efforts in maintaining the maximum efficiency of all our businesses. There's still a trek ahead of us to advance on improving the competitiveness and optimization of operations, a path that must continue to lift the company to new levels of profitability.

Thank you very much.