



June 25th, 2020

Chairman's speech

General Shareholders' Meeting 2020

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Opening and Introduction

Good morning, shareholders. Welcome once again to Indra's Ordinary General Meeting, which we are holding this year under unique circumstances. I would like to thank you especially for your attendance, both those present in the room and those who are following us online.

I hope that you and your families are doing well. First of all, I would like to convey a message of affection, solidarity and support to all those people who have suffered directly or in their family from the tragic effects of the pandemic, many of them shareholders, customers and quite a few employees of Indra.

I would especially like to thank all our professionals who, in very difficult situations and at times of great uncertainty, have made it possible for us to continue our business, and contributed with their efforts to maintaining essential services for society during the most difficult times of the pandemic. They proved to be, once again, our greatest source of pride.

Despite all the difficulties, the suddenness of the crisis and the seriousness of its effects, we can see that we have reacted and acted with determination to mitigate the most negative consequences of the crisis.

But we must also be realistic and face the fact that the pandemic is having a profound impact on the company's performance, disrupting the positive trend of recent years.

The 2019 results that we are going to analyze show the continuity of this positive momentum, which is the result of the transformation actions undertaken, and allow us to say that the company's evolution was positive until the beginning of the crisis

The results stand out basically for the good sales performance, reflected in the strong growth of the portfolio, of the order book and revenues, and for the improvement of Indra's profitability (EBIT), fulfilling all the objectives set at the time with the financial community for 2019.

- The portfolio is at its highest historical level and reached 4,511 million euros at the end of 2019, representing + 11% growth in reported terms. The portfolio to sales ratio for the last twelve months also reached a record figure for the company, standing at 1.41 times (compared to 1.31 times in 2018)
- Net orders for the year rose by 8% in local currency (+7% in reported terms), with very significant progress in both divisions to 3,686 million euros:
 - Orders in the Transport and Defence division grew by +12%, driven mainly by major contracts in Defence, such as the manufacture of the digital antenna for the F-110 frigates, which will consolidate the future development of the technological capabilities associated with this new portfolio
 - At Minsait, the number of contracts increased by +5%, with a notable contribution from State Agencies and Telecom and Media verticals, with very significant contracts won, notably in Spain and Italy
- As a result, revenues grew by 4% in local currency to 3,204 million euros, driven mainly by the Minsait division and the good performance in the Americas, with double-digit sales growth and Brazil as the main growth driver
 - Minsait's performance throughout 2019 has been very positive, both in terms of growth and improved profitability. Minsait's sales increased by 6%, while EBIT increased by 77%, bringing the EBIT margin to 3.8% (1.6 percentage points above 2018), with a much smaller contribution from the Elections business division than in the previous year
 - And it shows the progress in changing the mix of the IT business and the fruits of the complete transformation that this business has undergone - whose digital services, with an annual growth of 13%, now amount to 456 million Euros and represent 23% of Minsait's sales

- In Transport and Defence, the great progress made in the strategic reorientation of the Defence division towards major programs should be highlighted. This reorientation can be seen in the strong increase of the portfolio and the order book in Defence (which increases +41% in 2019) and the good visibility of the pipeline with decisive achievements in key national and European programs for Indra - such as FCAS and VCR 8x8. Also noteworthy is the growth in Transport and Traffic sales, despite delays in the certification of milestones in certain important contracts in the Middle East, which have fortunately been offset by the good performance of the Air Traffic business during the year.
- The group's profitability improved again. EBITDA in 2019 (which includes the effect of the accounting change in IFRS 16) increased by +18% to 346 million euros. Excluding the effect of IFRS 16, EBITDA would have reached 311 million euros compared to 293 million euros in 2018
- EBIT in 2019 grew by +11% to 221 million euros, improving in both the fourth quarter and the period as a whole.
- The margin also improved to 6.9% of revenues from 6.4% in 2018, reflecting the impact of all the efficiency initiatives taken, both in the business and corporate sectors, which continue to be essential to improve our competitiveness in an environment that continues to be quite demanding
- The Group's net profit reached 121 million euros, similar to the 120 million euros in 2018, mainly due to the higher tax rate in 2019, which was 29% compared to 25% in 2018
- Free Cash Flow was 8 million euros. Here we had a negative contribution from working capital during the first half of the year, which was offset by the strong cash generation achieved in the fourth quarter of the year, which amounted to 246 million euros.
- Net debt amounted to 552 million euros, bringing the net debt/EBITDA ratio to 1.8x at year-end, including the cash outflow from the acquisition of SIA (or 1.6x excluding the acquisition), compared to 1.6x at the end of 2018.
- The acquisition and integration of SIA, a company specializing in cybersecurity, consolidates us as the leader in the Information Security market in Spain and Portugal. This acquisition in addition to the previous M&A operations that we have successfully completed in previous years, account for a very important part of the positive effects in terms of both growth and change of mix that we are experiencing today, as well as the acquisition of new capacities
- Finally, I would like to highlight the commitment and constant effort to improve our social and environmental performance and our corporate governance, which is demonstrated by our renewed presence in both the Dow Jones Sustainability Index (DJSI) and the FTSE4Good, and by our inclusion in the 2020 Bloomberg Gender-Equality Index (GEI) as one of the leading companies in promoting equality and diversity, in which only 15 Spanish companies are included.
- Our commitment to sustainability and social impact is also further strengthened this year with the decision of the Board of Directors to create a Sustainability Committee with powers in the area of non-financial information which will also promote an ambitious Sustainability and Social Impact Plan to continue making significant progress in areas such as the fight against climate change, the circular economy and, in general, responsible management of the business and its social and environmental impact.
- Our commitment to sustainability, together with other essential initiatives that we continue to promote, such as our cultural transformation program "Change from the Core", has made us more attractive to professionals in the digital era and has prepared us for new ways of working, which has proved to be of great importance and useful in the current situation we are experiencing
- For all these reasons, our good performance and the improvement of our employer brand has allowed us to grow significantly in employment, talent and digital capabilities: the average workforce increased by 14% compared to 2018, reaching 49,607 employees at the end of 2019.
- In this regard, it is especially important to highlight that during 2019 Indra generated more than 1,400 net jobs in Spain, more than 3,000 in the last two years, and 3,500 in the last 3, and has been recognized as a 2020 Top Employer company.
- As I mentioned at the beginning, we can see that the results for 2019 show the positive evolution of Indra during the last year in the path of growth and improvement of profitability, as well as in strategic aspects such as the strength of our portfolio, the increase in our digital capabilities and in the creation of high added-value jobs
- In 2019 we met or surpassed the objectives committed to the financial community for the year. We had set ourselves equally demanding targets for 2020, with a record contracting budget, single-digit growth in revenues and an increase of more than 15% in EBIT, compared to 2019

- These Objectives reflected an ambition, and a momentum, that unfortunately has been hindered by the health crisis which, like the rest of the companies and the global economy as a whole, is seriously affecting us as of March of this year

Therefore, once the 2019 results have been analyzed, it is appropriate to analyze the COVID-19 crisis and its negative effects, which are spreading and affecting us in different areas

The first impact has been the global health crisis itself and its dramatic consequences in terms of public health, which due to its scale and seriousness has required us to take urgent and decisive action in different areas

What have we done?

The first thing we did was protect our Professionals. Our actions have focused on strictly following the recommendations of national and international health authorities, anticipating them as far as possible and providing the necessary means to protect the health of our employees.

We reacted quickly and were one of the first companies to proceed with a massive implementation of teleworking in all those activities where it was possible. And we also undertook, as soon as possible, the adaptation of the facilities to host with the greatest safety the on-site activity that, although it has been minimal, we have been able to maintain some of it.

Initiatives developed in previous years, such as the Cultural Transformation Plan - which has encouraged flexible models of remote working - and the continuous investment in modernizing our corporate systems, have made it possible for us to adapt in a remarkably short time and to facilitate remote work for more than 90% of the workforce in Spain in the first week of the State of Alarm.

In addition, some actions have had to be taken which have subsequently proved crucial in order to monitor the evolution of the pandemic and act effectively to protect the workforce: the creation of a Crisis Committee, Human Resources initiatives to improve employee experience in the new framework and specific hygiene and cleaning activities, within the framework of the recovery of industrial activity, especially in our factories.

Thanks to all of the above, we have achieved something very important which has been to guarantee the continuity of our Clients' operations from the first day of the pandemic.

A significant proportion of our clients' operations is considered "essential" to national economies. Thus, Indra has contributed to the effective operation during the crisis of key activities, such as urban mobility, air traffic, the operation of financial institutions and electricity and telecommunications networks, not to mention the effective handling of health issues.

Although in Spain we are gradually returning to a certain health normality, we cannot ignore the fact that in Latin America and other countries where we have a strong presence, acute phases of the disease are still being experienced and we must be on our guard against any scenario

With particular importance and foreseeing the negative effects that this crisis could have, we have made the greatest effort to ensure our financial stability. We have tried to anticipate the negative scenarios that are materializing by strengthening our balance sheet, ensuring additional liquidity and refinancing maturities for the next two years, accompanied by short-term measures to contain some costs and investments.

Finally, throughout these months we have also improved a great deal and evolved to better understand the impacts and to prepare scenarios and projections for the future on what is happening. Everything is still in an environment of great uncertainty, but we have made progress in shaping the most effective actions to counteract the effects of the crisis and to improve our intelligence and understanding of what may happen.

We must be aware of the magnitude of the challenge that has come upon us, which is going to demand a lot more from us than short-term actions.

Because we are at the center of a global macroeconomic crisis of still very uncertain scope, with very profound consequences for our clients

We have suffered a general and sudden fall in economic activity, in the income of companies and families and in stock market valuations. Although the deterioration is not homogeneous across sectors, it is very intense in industries directly related to our business, such as air transport, financial services and manufacturing, among others.

Analysts and independent experts agree on the depth of the crisis and contemplate different scenarios for the recovery of lost activity, which in any case is not measured in months, but in years. The recent report of the Bank of Spain or the equally recent forecasts of the OECD shows the seriousness of the macroeconomic projections and point out that Spain is among the countries of the euro area that may presumably be most affected, as a result of both the containment measures that have been very strict, and the dependence of the economy on the service sector, especially tourism, and the high weight of small businesses, which are more vulnerable to the pandemic. Other independent institutions and international experts come to similar conclusions.

Therefore, the perspectives in particular for Spain, and also for Latin America - regions of special importance for Indra - are still uncertain and will depend a lot on the effectiveness of the stimulus actions, which depend on the decisive action of governments or supranational institutions.

I believe we cannot rely on a quick or easy recovery.

The implications of the crisis for our clients are becoming very tangible. Virtually all sectors are affected.

In many of these sectors, the disruption of the pandemic has not only caused an intense contraction of activity along the entire value chain, a great weakness in demand and the deferment of investments and projects. It is also forcing the redefinition of business and operational models and accelerating change trends that will transform the demand mix.

Some of these changes will be structural: such as the general acceleration of digitalization with the implementation of a non-contact economy, a definitive boost to automation and artificial intelligence, the consequent complete transformation of physical and industrial footprints - with acceleration of Cloud and as a service models -, and an even greater emphasis on sustainability and responsible business management.

Customers will need to review their strategy, rethink their investments, and rapidly evolve their business or operational models, and do so in a context of scarce resources and returns that are, at least this year, progressively deteriorating.

At Indra we must be closer than ever to them and very aware of these structural changes in society and the economy, in order to correctly identify in time how we should act and in which direction we should also transform ourselves.

In other words, we must ask ourselves how to maintain and reinforce the path of value creation in this new scenario and act accordingly.

We are faced with a challenge of enormous magnitude. Our environment has changed and we simply have to adapt to it.

An environment that is going to be different and full of difficulties, but it is also going to have opportunities.

We are starting from a very favorable and hopeful position because of the growth of our portfolio, because of everything we have invested in the company, because of the technological capabilities we have developed and because of the improvements in our cultural transformation, but we are also aware of the need to improve our profitability and competitiveness, a need that we already had and that this crisis is making more evident and more urgent.

Our IT Business is somewhat resilient, compared to other sectors that have been hit hardest by the COVID-19, but its profitability is greatly affected by the slowdown in growth. The negative impact in terms of operating leverage is especially critical in a business that is labor-intensive - particularly in fixed staff costs - in a highly demanding competitive environment that is being accentuated by the crisis.

Many of our services are essential for the continuity of our clients' business, but we are going to suffer the downward pressure on prices due to lower investment capacity or budget availability, and we are going to experience structural changes in the demand for technological solutions to which we will have to respond.

Our typical large client will suffer the crisis and reduce its investment, but it will not disappear (as may happen with greater intensity in smaller and stronger companies).

On the other hand, our T&D business is mainly associated with public sector clients, and therefore very exposed to possible budget cuts or delays in large programs while the macroeconomic crisis lasts and high levels of public debt are maintained.

As a counterbalance, the type of contracts in T&D is very long term, and the solid portfolio position provides us with stability and visibility over the business and technological developments to be undertaken, which is very healthy in the medium to long term, but whose delays can be very detrimental to our performance in the short term.

In addition to all this, we have high business volumes in regions with economies highly dependent on oil, where it is foreseeable that there will be cuts in investment, or in regions such as Latin America, which is suffering particularly badly from this crisis and with exchange rates that are also evolving quite negatively.

As I have already said, new opportunities are appearing every day which are fundamentally digital, especially in areas such as mobility, security or the digital transformation of value chains in businesses such as finance or industry and consumption.

Key aspects of digitalization for which we have unique capabilities are going to accelerate and that is a great strategic strength for our company

In short,

We were in a very positive dynamic in all aspects - growth, profitability, progressive improvement of the offer or in attracting and retaining talent. We had set ourselves an ambitious budget for 2020 and were making good progress towards our goal of becoming the company we want to be: the European technological and digital leader in the fields of Information Technology and Transport & Defence, and the company that attracts, employs and provides development opportunities for the best digital talent in Spain and Latin America.

The COVID-19 crisis has meant an abrupt interruption of this positive trend, with all sorts of uncertainties as to the severity of the crisis, its duration and the time needed for recovery.

We have reacted well to the first negative shock but the new situation will bring profound changes: customers will demand different solutions, the speed of transformation will accelerate and there will be enormous pressure for greater efficiency.

As a result, digitalization will be critically accelerated in all sectors, both as a tool for process transformation and as a source of efficiency.

Faced with this challenge, we must go further with our Transformation in order to be able to give an agile and dynamic response to these changes and recover the competitiveness that we are losing due to the crisis.

This competitiveness was, and is, highly dependent on the ability to grow and leverage our fixed costs. We must also take into account that part of the work we deliver in affected regions such as Latin America or the Middle East is carried out from Spain. Therefore, the global slowdown has a direct and multiplying effect on our competitiveness in Spain.

The impact on our accounts is already far-reaching and we do not know how long it will last, so in addition to preparing for the future and refocusing our strategy, decisions must be made to provide an appropriate and correct response in the short term.

Because only in this way can we be the company we want to be and continue to offer high potential for growth and value creation in this new environment.

On another note, and in accordance with Recommendation 3 of the Code of Good Governance for Listed Companies, I would like to refer to the most significant aspects of Corporate Governance that have occurred since the last ordinary General Shareholders' Meeting

The most notable are the following:

- Firstly, the creation of a Sustainability Committee, responsible for guiding the Society's strategy and policies in the area of ESG. This new committee is made up exclusively of external directors and its chairman is an independent director.
The Board also agreed to abolish the Executive Committee.
- With regard to risk control and management, the Board and the Audit and Compliance Committee have supervised and promoted the work of the Internal Audit Department, the Risk Management Unit and the Compliance Unit, having approved during the year the relevant updates of the Company's Risk Maps and Policies, as well as a specific Compliance Program in matters of competence.

Next, I would also like to inform you about the degree of compliance with Indra's Good Governance recommendations in 2019:

- In 2019, Indra did not comply with just one recommendation out of a total of 64 in the Good Governance Code; specifically, Recommendation 48 regarding the separation of the current Nominating, Compensation and Corporate Governance Committee into two committees, as such separation was not deemed advisable for the reasons already reported to the Shareholders' Meeting in previous years and included in the aforementioned Annual Corporate Governance Report.

I would like to add that in relation to the letter received from Ms Rosa María García Piñeiro notifying us of her decision not to accept her appointment as a director of Indra - to which the secretary referred in his first speech - we regret that a person of her professional and personal acumen, who was proposed by the Nominating, Compensation and Corporate Governance Committee after a strict selection process, will not finally be joining the company and I would like to thank her for her availability throughout the process.

To conclude

- In my speech, I went over the results for 2019 with you:
 - the record figures we have achieved for contracting (up 7%) and the portfolio (now over 4.5 billion),
 - 4% growth in local currency revenues.
 - and an EBIT improvement of 11% compared to last year, up to 221 million euros and reaching an EBIT margin of 6.9%.
- These results confirm our positive performance this year in terms of growth and profitability, as well as the improvement in the company's strategic perspective.
- This momentum has been unfortunately interrupted, we hope that just temporarily, by the COVID-19 crisis, whose effects have hindered it and introduced elements of uncertainty due to the depth and duration of this crisis.
- Our clients are also being seriously affected by this crisis, which will drive structural changes that will lead to equally profound changes in their technological needs
- We have to stand shoulder to shoulder with them in order to understand correctly and intelligently how we should evolve and transform ourselves. But, to guarantee our future, we also have to act in the short term on our efficiency and competitiveness, which have been damaged by the impact of the crisis and by the contraction of our income, which, due to our cost structure and the nature of our business, is particularly negative for our performance

- We therefore need to regain competitiveness and profitability to preserve the company's enormous future potential. With sustained investment and thinking about the long term, Indra has built a singularly powerful set of capabilities. Specifically, we have a unique strategic, commercial and business position and an extraordinary team of technological and digital talent, and we are at the center of a highly dynamic and potential global industry that can generate a great deal of value for Spain.
- Without a doubt we have to face challenges and make difficult decisions in this environment with high uncertainty, but I am convinced that there are many reasons to look to the future with optimism. I believe that we are fully prepared to overcome the current difficulties, to undertake a new transformation and to take advantage of the undeniable strengths we have in order to return very soon to growth and to generate quality employment.
- I would like to conclude my speech by expressing my gratitude to all Indra's professionals and the management team for their efforts, especially during the most difficult moments of the current crisis, and my particular recognition to Cristina Ruiz and Ignacio Mataix and for the success in transforming their businesses and the leadership shown during this stage.
- **Finally, allow me to express my gratitude for the trust you have placed in us for another year, and I would like to once again convey my wishes for the good health and well-being of all of you and all of the professionals at Indra.**

Thank you very much.

Avda. de Bruselas, 35
28018 Alcobendas
Madrid, España
T +34 914 805 000

indracompany.com

indra