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Speech by Ignacio Mataix

General Shareholders' Meeting 2021

Speech by ignacio mataix, ceo of t&d

Opening and Introduction

Good morning Shareholders.

It's also an honor for me to address you for the first time as Chief Executive Officer of Indra, together with Cristina Ruiz, with the main responsibility for the Transport and Defence division.

On behalf of Cristina and myself, we endorse the Chairman's message of sympathy and our solidarity towards everyone at Indra who has suffered the most tragic effects of the pandemic directly or among their families.

In representation of the two Chief Executive Officers, I'll now proceed to give the assessment of the Group's results in 2020 and then analyze the specific results of the Transport and Defence division.

The impact of the crisis on the year's results was mainly reflected in the paralysis and delays in the projects underway and the decision-making of our clients, in view of the severe macroeconomic downturn in the countries in which we operate and the consequences of the provisions of the Action Plan implemented by the company in the middle of the year to address the crisis and, in part due to the structural changes in the needs of our clients.

- One positive factor was undoubtedly the evolution of the portfolio, which stands at a record high, having reached 5,229 million euros in 2020, a figure that represents growth of +15.9% in reported terms. The portfolio-to-sales ratio for the last twelve months also registered a record figure, standing at 1.72 (compared to 1.41 in 2019)
- In 2020, the net contracts received rose by +8.4% to 3,858 million euros in local currency (by +4.7% in reported terms)
- Income in 2020 fell by -1.6% to 3,043 million euros in local currency (by -5% in reported terms), although a recovery began in the fourth quarter with +1% growth in local currency
- Another major negative factor in the year's results was the evolution of the exchange rates. The depreciation of the Latin American currencies (mainly the Brazilian real and the Mexican and Colombian pesos) led to a negative contribution to income totaling -108 million euros in 2020
- The reported EBITDA stood at +77 million euros, affected by delays and the lower level of activity, as well as the impact of the provisions of the action plan, which led to a negative impact of 189 million euros, and capital gains of +36 million euros through the sale of Metrocall
- The reported EBIT for the cumulative period was negative, standing at 33 million euros set against the positive figure of 221 million euros in 2019, affected by everything I previously mentioned.
- Consequently, the Group's net result stood at -65 million euros in 2020, compared with the figure of 121 million euros recorded in 2019
- Moving on to the cash generation figures, the Free Cash Flow totaled +83 million euros (121 million euros if the 38-million-euro cash outflow resulting from the COVID-19 workforce transformation plan is excluded). This positive figure lies in stark contrast to the +8 million euros of Free Cash Flow in 2019, owing to the significant improvement in the Working Capital in 2020 compared to the previous year
- Finally, the net debt reached 481 million euros by the end of the year, against the figure of 552 million euros in 2019, positioning it at its lowest level since 2010
- In summary, despite the worsening of the pandemic during the second half of the year, the company was able to meet the targets it had pledged to its investors and shareholders in July

As for the 2020 results in the Transport and Defence division, they display solid growth in terms of contracts received and the portfolio, within the context of the downturn in income and profitability caused by COVID-19.

The Transport and Defence results were particularly noteworthy due to the excellent performance of commercial activity, which was reflected in the sharp upturns in the portfolio and contracts received, with record highs being achieved.

- The T&D division's portfolio totaled 3,600 million euros, increasing by 20.7% in 2020 compared to 2019, with the cumulative portfolio of Defence and Security standing at a remarkable 2,200 million euros
- The net contracts received in 2020 rose by +23.2% in local currency, mainly due to the high number of contracts in the Defence and Security business, which increased by +37.5% in local currency
- The positive growth dynamics in Defence occurred in Spain (with significant contracts such as the electronic defence systems and the radars for the F-110 Frigates, 8x8 combat vehicles and NH90 helicopters), Europe (with the MK1 Radar for the Eurofighter project) and other countries (Tunisia, South Korea, etc.). We should also highlight the positive performance of the Air Traffic business (+17.3% in local currency) as a result of the contracts in Poland, India, Bahrain and Oman that were obtained within a particularly difficult context for the aeronautical sector
- The Transport and Defence division's 2020 income fell by -4.5% in local currency (by -5.8% in reported terms) as a result of the above-mentioned delays due to COVID-19 and the lower level of activity
- It's also important to mention that the division's sales in the fourth quarter recovered to a degree with a rise of +2.6% in local currency, driven by the growth of the Air Traffic segment (+8.2% in local currency) and Transport (+9.0% in local currency) and the positive evolution of projects in Spain (the railway signaling and interurban transport systems) and America (the I-66 highway toll systems in the USA)
- The Transport and Defence operating margin totaled 99 million euros in 2020, compared to the figure of 160 million euros in 2019. This is equivalent to a margin of 8.8% in 2020 set against one of 13.4% in 2019
- The EBIT of the T&D division totaled +55 million euros in 2020. If we exclude the impact of the provisions of the Efficiency Plan and the Metrocall capital gain, T&D's EBIT would have totaled 82 million euros, equivalent to an EBIT sales margin of 7.3%, against the margin of 12.2% registered in 2019

However, beyond 2020 and as we begin to leave the worst effects of the pandemic behind us, we currently have a very solid Transport and Defence business with excellent strategic prospects.

- This positive outlook is based, first and foremost, on the decisive successes achieved in the strategic reorientation of the Defence area towards the major programs. This reorientation is reflected in the healthy growth of the portfolio and contracts received and the excellent visibility of the business, thanks to Indra's pivotal achievements in key European and domestic programs
- Factors such as the strategic role we're acquiring in the FCAS and our leadership and prominent participation in the European programs for the industrial development of defence are ensuring our presence in the technological evolution set to mark the coming decades in European Defence
- Our Air Traffic segment operates within an industry that has been one of those most dramatically affected by the pandemic. This has obviously had a negative impact on our activity, which is closely linked to our customers' investment decisions. This impact has chiefly affected our business outside Europe, while our large European clients have largely maintained their investment plans
- Our Transport segment continues to develop and transform its product range, while it's important to highlight, in such an anomalous year, the upturn in the sales of the Transport segment in local currency (+2%), with the good performance of the business in Spain and the USA offsetting the declines recorded in business in the Middle East

Having analyzed our 2020 results, I'd now like to share with you our major strategic objectives and how we're steering our Transport and Defence business towards the future.

In many of the sectors in which we operate, the disruption of the pandemic has caused a sharp downturn of activity throughout the value chain and the deferment of investments and projects. It's also speeding up the trends towards change that already existed before the crisis which we need to pay attention to.

In particular, the Defence industry is going through a technological and competitive revolution and we have to keep an eye on our environment so as to remain a relevant player in an industry which is undergoing a complete transformation.

Our business therefore faces major demands: the need for technological and digital innovation is increasing, the relevance of scale is becoming more and more evident in markets that are becoming increasingly global and the capacity to invest in R&D is now a differentiating factor. In addition, the convergence towards large transnational Defence and Air Traffic programs is leading us to consider Europe more and more as our domestic market.

The strategy we've undertaken and executed throughout these years has stood us in good stead to face these challenges, and many of the actions we'll have to undertake in this new phase will overcome these new strategic obstacles.

As I said earlier, the success of the strategy and the improvement of our positioning have produced a portfolio at record highs and a type of long-term T&D contract that provides us with stability and visibility and ensures the R&D investments we need to develop in the mid and long terms. In order to ensure the proper execution of the portfolio, it's important to focus in the short term on our streamlined nature, efficiency and competitiveness, all adversely affected by the impact of the crisis and the demanding competitive environment.

Our ambition for the Transport and Defence business is to set out once again on the path towards profitable growth as soon as possible by employing technological innovation in the transport, aerospace and defence sectors, in which we're an industrial and technological benchmark.

Therefore, our priorities are focused on persevering and furthering our transformational measures, constantly improving efficiency and decisively promoting the evolution and digitalisation of our product range with major programs as the driving forces behind our leadership in R&D.

In particular, the FCAS, Europe's Future Combat Air System program, represents a paradigm shift in Indra's positioning in Europe as a catalyst for disruptive technologies over the next 30 years. Our role in the program as National Coordinator (together with Dassault and Airbus, the other national coordinators designated by France and Germany) will provide a source of excellent opportunities and it will guide many of our strategic decisions. At the same time, we're promoting new emerging businesses in areas such as Space in which we can exploit our strengths, such as the Startical project, recently announced alongside our partner ENAIRE, which will allow us to launch a network of 200 nanosatellites into space and operate them in low orbit to improve Global Air Traffic, while it will also reinforce our leadership in Air Traffic by promoting the development of the Single European Sky.

Therefore, our strategy to provide this new impetus and put this period of crisis and uncertainty behind us is going to focus on:

1. Developing future technologies to guarantee our competitiveness in the global market while relying on the position we've achieved in the large-scale programs which we've been awarded.
2. Intensifying the technological differentiation of our product range by digitalizing our products and assisting our clients in their digital transformation processes.
3. Maintaining the focus on improving project execution based on growth as a way of enhancing internal and supply chain-related competitiveness.
4. Prioritizing our portfolio of products and solutions and focusing on the key geographical areas for our business.

This will enable us to move forward along the path towards becoming the company we want to be, a global technological leader in the field of Transport and Defence, while continuing to offer high potential for growth and value creation in this new scenario.

Finally, before handing over to Cristina Ruiz, my fellow Chief Executive Officer, please allow me to thank you for your attention and for placing your renewed trust in us as we embark upon this new phase.

Thank you very much.

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