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CEO's letter



Jorge Unda Malcorra, CEO of SENER Group.

2018 was a year of changes at SENER. After practically two decades as SENER's top executive, and following the guidelines of the Family Protocol, Jorge Sendagorta Gomendio left his post, although he will still hold the non-executive Presidency of the company. Over this period, under his leadership, SENER has grown bigger but, above all, it has improved. If we look back to when he took up the reins, review the SENER of back then, and compare it with the SENER of today, we can appreciate this transformation and the sheer magnitude of his legacy. Those of us who take up the baton are extremely grateful, and both enthusiastic about and overwhelmed by the challenge of making SENER even better.

Among the latest advances of 2018, special mention should be made of the corporate reorganization, which will formally culminate, in mid-2019, with the division of SENER Ingeniería y Sistemas into two companies: SENER Ingeniería and SENER Aeroespacial. This report includes SENER's activity prior to this corporate split. In mid-2018, SENER acquired the group TRYO, a significant player in the on-board satellite telecommunication equipment sector, the

financial statements of which, in line with accounting regulations, are included in this report. Additionally, in the third quarter of the last financial year, we embarked on a strategic review that will conclude in 2019.

We are currently enjoying a good cash situation which, coupled with the enormous potential of our people, will enable us to once again reinvent SENER, and to continue to make investments that will lead us to even more prominent positions within the engineering sector.

In 2018, the geopolitical and international trade uncertainties continued unabated, as did the fall in oil and commodity prices throughout most of the year. The energy transition towards renewable generation gathered pace, limiting investments in fossil fuel-based energy infrastructure, including those of natural gas, but speeding up those based on renewable energies, where new opportunities have been opened up. In transport infrastructure,

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investments held back in some of the principal areas in which we operate—Mexico, Brazil and the Gulf countries—either owing to their being in an election year, or because their economies had been hit by the low prices of their raw material exports. In the aerospace sector, expectation of the deployment of new concepts of satellite constellations has slowed down investment decisions in new communications satellites, only temporarily we hope. Spain, on the other hand, is

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showing signs of recovering the investment cycle that was halted in its tracks by the crisis. Thus, improvements can be discerned in investments in rail transport infrastructure and urban transport, and expectations of development in renewable energy projects are steadily becoming consolidated.

In 2018, income from the Group's ordinary business was 589.2 million euros, 22.3% down on the previous year. The completion of the major projects in Power, Oil, Gas and Renewables contracted in 2015, and not replaced by new large contracts, has given rise to this effect. On the other hand, pre-tax profits from continuing operations totaled 29.2 million euros, 27.7% up on 2017, reflecting the results of the improvement in operations and in the management of risks implemented in recent years. Furthermore, this last figure paves the way towards recovering healthy profitability ratios, necessary to ensure SENNER's continuity and growth in the medium and long term. Regarding the number of employees at year end, the figure of 2,308 has been reached. Here, it is only fair to acknowledge the excellent work, efforts and, above all, the commitment of the people who make up SENNER. They make the difficult, complex and exciting projects that we deliver to our clients possible. In short, SENNER can only go as far as its people can take it.

SENER's vocation, reflected in the wording of its Mission as "a reference for its firm commitment to excellence in engineering and innovation," entails concerted efforts in investment in R&D, in innovation to safeguard our position as a benchmark in several specialties, and which identifies and opens up new positions. This eagerness to explore new fields and spot new technical solutions is SENNER's most recognizable hallmark. Thus, in 2018, investment in R&D totaled 21.2 million euros.

Particularly noteworthy in the investment chapter was the acquisition of 100% of the TRYO Group, focused on the design and manufacture of radio frequency communications equipment (products it sells in several markets), and in which on-board satellite equipment is the most salient and the one with the greatest projection. The complementarity of its products and markets with SENNER will provide significant synergies that will add value to our entire aerospace activity. While the operational integration of

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TRYO within SENER Ingeniería y Sistemas was conducted in 2018, it will be in 2019 when this comes about with SENER Aeroespacial.

Throughout the financial year, 22% of sales were in Spain, a higher percentage than the previous year, which, on the one hand, confirms the recovery of activity levels in the country; on the other, it demonstrates the global nature of SENER's activity, in which our presence in Mexico, and in solar energy projects in Morocco and South Africa, among others, is especially relevant.

The complexity of the environment I describe in the third paragraph of this report was reflected, in particular, in the recruitment difficulties experienced over the year in Power, Oil, Gas and Renewables. In this sphere, the major challenge for 2019 focuses on achieving recruitment that will enable us to return to levels of activity similar to those of previous years. Our technological differentiation, the

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opportunities that arise and the resolve of our people in business development and project implementation will no doubt allow us to exceed this target. Moving on to other issues, we are currently enjoying a good cash situation which, coupled with the enormous potential of our people, will enable us to once again reinvent SENER, and to continue to make investments that will lead us to even more prominent positions within the engineering sector. We face the unique and exciting challenge of developing

SENER, of making SENER even better. SENER is all about team work. Every single day, I am still amazed by the strength of our people, their passion for engineering, and their commitment to a job well done. All of this within a shared culture, a way of doing things that sets us apart and which is the foundation upon which, from day to day, we build our future.



Jorge Unda Malcorra
CEO of SENER Group