Indra

IT Services | Spain

Neutral

Target price	**EUR15.5 (+8%)**
Sector rating	**Neutral**

Price (17 February 2011)	**EUR14.3**
Market cap./Free float (EURbn)	2.3/1.7
EV (EURbn)	2.6
3m avg. volume (EURm)	11.7
Reuters/Bloomberg	IDR.MC/IDR SM

Financial data	**12/09**	**12/10e**	**12/11e**	**12/12e**
Adjusted EPS (EUR)	1.22	1.36	1.24	1.30
EPS - IBES (EUR)	1.21	1.23	1.21	1.28
Net dividend (EUR)	0.67	0.65	0.61	0.69
Sales (EURm)	2,513	2,557	2,597	2,667
Adjusted EBITA (EURm)	286.8	285.4	277.3	290.7
Adj. net profit (EURm)	196.6	221.5	202.3	211.3
Adj. net debt / EBITDA (x)	0.4	0.7	0.7	0.6

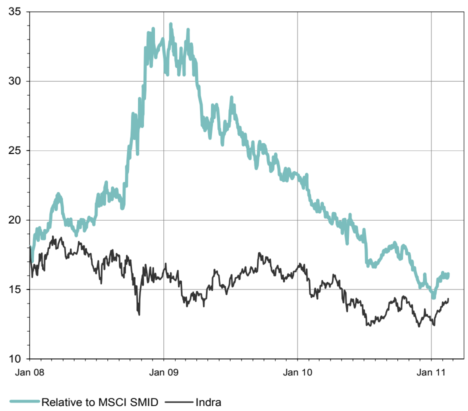
Stockmarket ratios*	**12/09**	**12/10e**	**12/11e**	**12/12e**
P/E (x)	12.9	10.4	11.5	11.0
P/BV (x)	2.8	2.3	2.2	2.0
Net yield (%)	4.2	4.6	4.2	4.8
FCF yield (%)	6.0	3.1	7.2	8.0
EV/Sales (x)	1.1	1.0	1.0	1.0
EV/EBITDA (x)	8.5	8.0	8.2	7.7
EV/EBITA (x)	9.8	9.2	9.5	9.0

** Yearly average prices for FY to end-12/09, 12/10*

Performance* (%)	**1w**	**1m**	**3m**	**12m**
Absolute	1	8	8	2
Rel. IT Services	(4)	(2)	(12)	(18)
Rel, DJ STOXX50	(1)	4	(1)	(11)

** In listing currency, with dividend reinvested*

Price relative to MSCI SMID



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Sound fundamentals but risks remain on Spain

► **Reinitiating on the stock with a Neutral rating and EUR15.5 TP**

Indra is 65%-exposed to Spain and the stock was inevitably affected by concerns about the Spanish debt in the last 12 months, with a 18% underperformance vs peers. Although there is limited risk of Spain “collapsing”, these concerns are not overdone. Further pressure on Spanish banks could also force Caja Madrid to sell its 20% stake in Indra. That said, Indra’s fundamentals remain sound, hence our Neutral rating on the stock.

► **Spain will be slow to recover**

We do not expect Indra’s Spanish division to recover in the short term and forecast a 3% top-line decline in Spain in 2011e and flat sales in 2012e. Spain has already announced heavy budget cuts; the risk of additional cuts has receded but still exists.

► **Hidden value: technological edge, Latin American exposure**

Indra’s business model differs markedly from that of a typical European IT Services company. It generates c.70% of its revenues from solutions that it has developed and is 15% exposed to Latin America (vs less than 5% exposure to emerging markets for European peers). This enables the company to 1) benefit from offshore staff to lower the pressure on costs and 2) win attractive contracts in fast-growing countries (it was recently awarded traffic and transport management contracts in China and Abu Dhabi). We expect Latin American exposure to offset part of the sluggish growth in Spain and enable Indra to maintain a double-digit margin in the coming years.

► **Attractive valuation**

Following Indra’s FY11 guidance provided at the end of January, we believe the main consensus downgrades are in the past. With the stock trading at a 21% discount to historical EV/EBIT (peers at a 15% discount), the valuation is beginning to look attractive. However, we will await further assurances that Spain’s public budget cuts are a thing of the past, and for the situation at the “*cajas*” to stabilise before reconsidering our stance.

Investment case

We reinitiate on Indra with a Neutral rating and target price of EUR15.5

Indra's shares have underperformed the sector by 18% in the last 12 months, and with consensus now more cautious on FY11 numbers, we believe that the current share price level is starting to be attractive for a company with sound fundamentals: technological edge, high potential in emerging markets and experienced management team with a strong track record. However, the shareholder overhang (with the potential risk from a disposal of Caja Madrid's 20% stake) and lingering concerns about Spain could weigh on the shares in the short term, and as such we reinitiate with a Neutral rating.

A different business model – hefty technological edge

High expertise in Transport & Traffic and Defence & Security

Indra's business model differs markedly from that of a typical European IT Services company. Indeed, it generates c.70% of its revenues from solutions it has developed. The company has strong expertise in Transport & Traffic (air traffic control systems, ticketing systems) and Defence & Security (software solutions for military aircraft, warships, simulators, testing systems, surveillance radar to protect coastlines, etc.).

News flow on contracts remains positive

We have looked at all the contracts announced by Indra since 2008 (available upon request by sending an email to itservices&software@exanebnpparibas.com) and note the recent contract news flow:

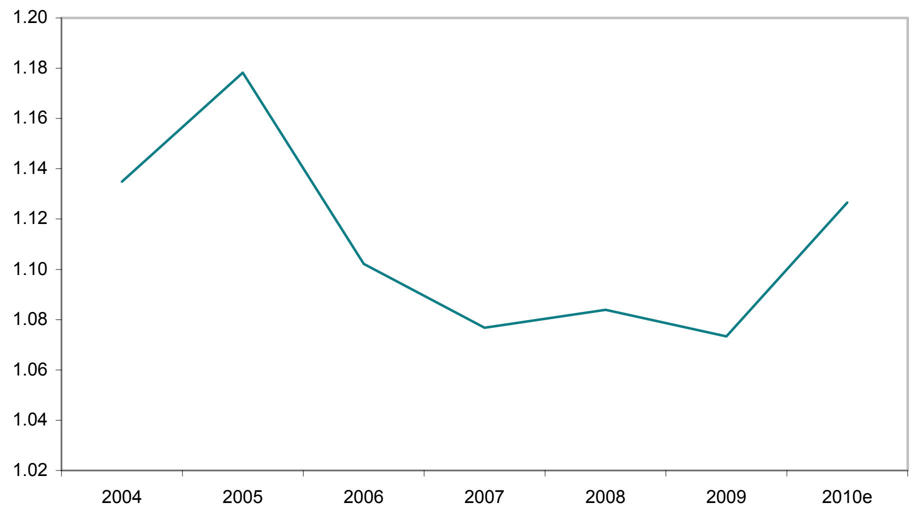
1) some attractive wins in emerging markets and in growth segments such as security, energy and transport. These include the installation of access control and ticketing technology in rail lines in Kuala Lumpur, a memorandum of understanding for transport and traffic projects with Abu Dhabi's investment company Mubadala, and the installation of air traffic management systems in the Xian and Chengdu control centres for the Chinese Civil Aviation Administration.

2) additional deals in the defence and security space, for instance, for the Ministry of the Interior to expand and enhance the secure communications channels for illegal immigration and drug trafficking between Spain, Portugal and the South Atlantic islands.

3) deals in the BPO space where Indra seems to be gaining traction, e.g., Banamex's printing services.

We also note that book-to-bill ratios started to rebound in 2010, which is usually a positive signal for future growth. However, book-to-bill ratios have to be read with caution as there is no "common standard" within the industry on the definition of backlog (although Indra is usually seen as quite conservative on this point) and as book to bill does not give the duration of the contracts.

Figure 134: Book-to-bill ratios



Source: Exane BNP Paribas, company

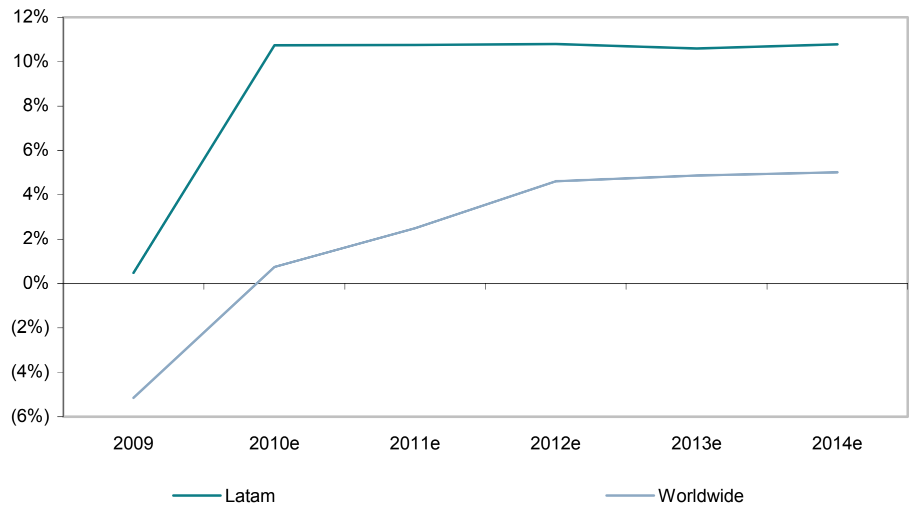
Latin America will drive growth

Indra now has sufficient scale in Latin America to be credible

Indra is the only stock within our IT Services coverage with significant exposure to emerging markets (15% of sales derived from Latin America). In addition, Indra is expanding into other emerging countries in Africa and Asia, using its technological edge in transport and traffic and in the defence sector. Interestingly, we note the increasing interest of European IT Services companies in emerging markets (Capgemini's acquisition of CPM Braxis in Brazil and Atos's purchase of Infotek in India in 2010), as so far they generate less than 5% of their revenues in these regions. This compares with exposure of some 15-20% for the Indian players and Accenture. The Latin American IT Services market is indeed expected to grow at an 11% CAGR in 2010/2014e according to Gartner. This compares with a 4% CAGR expectation for the IT Services market worldwide.

Figure 135: CAGR of 11% expected for LatAm IT Services market in 2010/14e

IT Services market growth estimates



Source: Gartner

Indra's exposure to Latin America should reach 20% of sales in 2013e

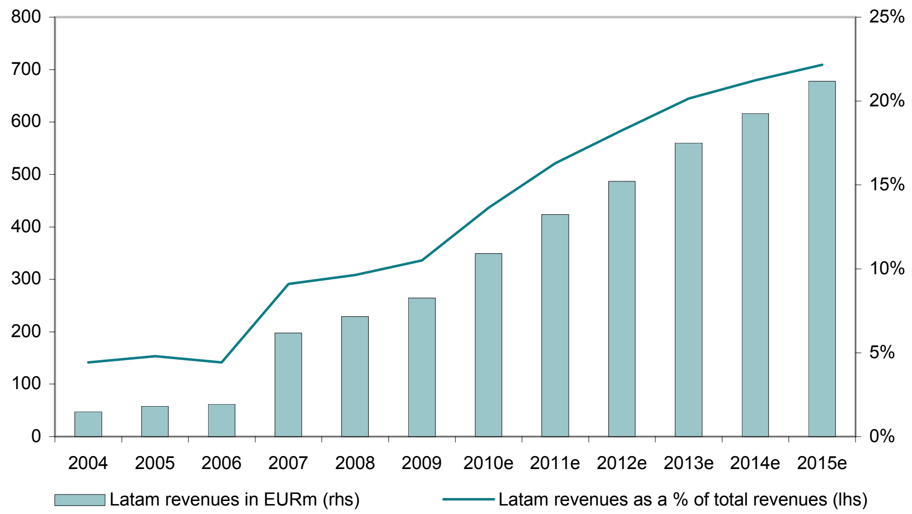
We tend to be quite cautious about IT Services companies penetrating new markets, as large investments are usually required to acquire a meaningful presence, with high execution risks. However, we believe that Indra has now proven its ability to compete internationally and has gained sufficient scale in Latin America to be credible (with its exposure to Latin America growing to 14% of revenues in 2010e vs 4% in 2006). Indeed, Indra benefits from the fact that Spanish companies are very active in Latin America, which gives it privileged access to the IT Services market there.

We therefore expect Indra's revenues in Latin America to grow at a 15% CAGR in the next five years, offsetting the sluggish growth in the Spanish market. As such, Indra's Latin American exposure should increase to 22% of sales in 2015. We estimate that Indra has a c.1-2% share of the IT Services market in Latin America. As this market is very fragmented, Indra should be able to build its presence there (the top 10 IT Services players have less than a 40% share of the market).

The recent contract news flow remains positive, with some wins in Uruguay (to supply Uruguay's Air Force with new air surveillance radars), Chile (implementation of the country's new electronic identification systems) and Mexico (managing Banamex's printing services).

Figure 136: Indra in LatAm: from 4% of revenues in 2004 to 22% in 2015e

Indra's revenues in Latin America 2004-2015e



Source: Exane BNP Paribas estimates

Ability to maintain double-digit margin in the coming years

Benefiting from high-value solutions and an experienced management team

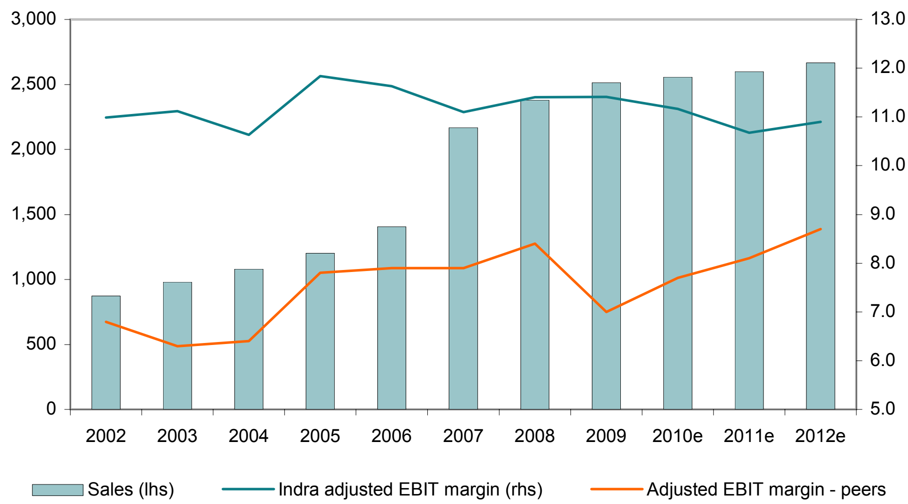
Indra posted an average adjusted EBIT margin of 11.2% in 2002-08 vs 7.4% for the sector over the same period, due to:

1) A different business model with a focus on software solutions (largely developed internally) rather than on such areas as consulting and systems integration. Of Indra's business mix, 70% of revenues are solutions-related. This is a business where systems and applications are designed and implemented by Indra after being tailored to each customer. In our view, the high-end, specialised nature of these services and their strong 'verticalisation' confer higher barriers to entry, recurring revenues and operating margins (owing to repeat business) than more traditional IT activities. Indeed, we estimate that the solutions division boasts an EBIT margin of close to 12-13% vs 7% for the IT Services division.

2) An experienced management team with a strong track record on margin enhancement. Indra was formed primarily between 1986 and 1992 from the merger of several Spanish IT companies with diverse activities. At that time, Indra was a loss-making company with a bloated cost structure and heavy debt burden. The challenge for management from 1993 to 1997 was to address the company's cost structure and strengthen its balance sheet. Over that period, headcount fell by 22% and management restructured the balance sheet with a capital increase, redefined the business focus and boosted international revenues. The company reached operating breakeven in 1994 and achieved satisfactory profitability in 1995. Indra was listed on Spain's stock exchange in March 1999 and generated revenues that year of EUR578m and an operating margin of 9.5%. Ten years later, the company was generating revenues of EUR2.5bn and an 11.4% operating margin. On average in 2002-08, Indra delivered an adjusted EBIT margin of 11.2% versus 7.4% for the sector over the same period (5.8% post restructuring costs). More importantly, Indra has displayed good cyclical resistance, with a margin trough at 10.6% (10.3% post restructuring costs) and a peak at 11.8%, while margins for other IT Services companies have been much more volatile through the cycle (trough at 4% post restructuring costs and peak at 7%). Indra's current management team has been the driving force behind this story. Javier Monzon has been chairman since the group's creation in 1993 (and was previously chairman of Inisel, which has been integrated into Indra). CEO Regino Moranchel has spent his entire career at Indra, where he held different positions before his appointment as CEO in 2001.

Figure 137: Strong track record in margin protection

Indra's top-line growth and adjusted EBIT margin 2002–10e (excl. restructuring costs)



Source: Exane BNP Paribas estimates

Increasing headcount in emerging markets and cutting subcontractors to offset pricing pressure

However, recent pricing pressure in Spain negatively affected the margin in 2010, with an adjusted EBIT margin of 11.2% (vs 11.4% in 2009). This should continue into 2011e as we forecast an adjusted EBIT margin of 10.7%. This compares with management's guidance of an EBIT margin of at least 10.5% in 2011e. However, we have included in our model some restructuring costs in 2011e while management has stated that it does not expect any, and our stated EBIT margin therefore stands at 10.5% for 2011e.

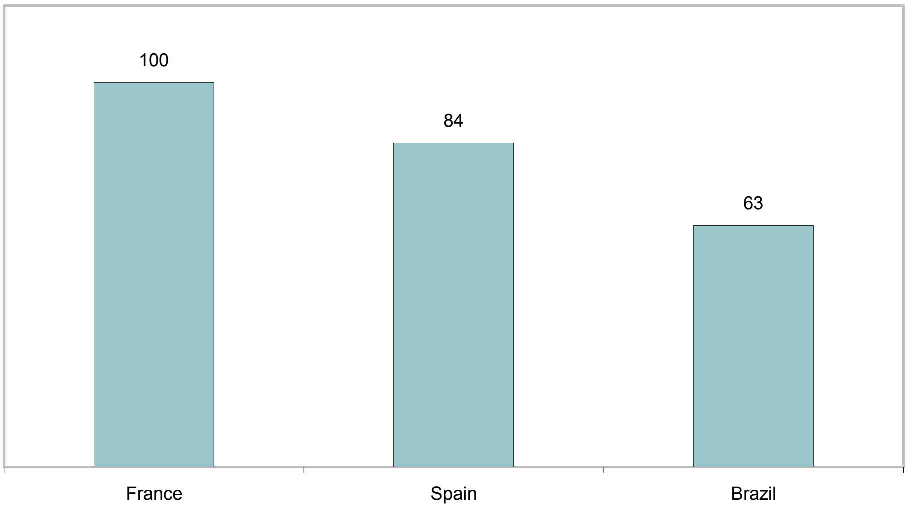
A detailed analysis of pricing pressure and wage inflation in the different areas where Indra is active underpins our conviction that the company should be able to continue to post double-digit margins by leveraging its presence in Latin America where salaries are lower, by limiting recruitment in Spain and by using its layer of subcontractors as a buffer. Our base-case scenario is that pricing pressure in Spain will remain in 2011e at roughly the same level as in 2010e and that prices should stabilise only in 2012e.

We forecast a gradual margin recovery from 2012e onwards (10.9% adjusted EBIT margin in 2012e, 11.3% in 2013e). The two main ways that we see for Indra to protect margins are by 1) leveraging on offshore headcount and reducing onshore staff and 2) using fewer subcontractors.

1) Leveraging on headcount in emerging markets and reducing Spanish staff. Some 70% of Indra's employees are based in Spain, where wages in IT Services are 23% lower than in France and 35% lower than in the UK. Obviously, part of Indra's cost benefit is passed on to customers, but in our view this enables the company to offer a similar quality of offering as its peers but at a lower price. Moreover, with 19% of its workforce located in Latin America, Indra benefits from an integrated "offshore" model, and growing headcount in Latin America should limit the overall increase in personnel costs for Indra. We estimate that Indra's headcount in Latin America should rise from 19% of the workforce in 2009 to 23% in 2012e.

Figure 138: Indra benefits from wage differential in Spain and Latin America

Average salary in IT Services – France/Spain/Brazil (rebased 100 for France)



Source: Exane BNP Paribas, www.payscale.com

2) The second "buffer" to protect Indra's margin is the subcontractor layer. Indra is heavily reliant on the use of third-party contractors, which make up about 13-14% of the total workforce, compared with 7% for instance for Atos. Use of this type of capacity provides Indra with a buffer layer through which it can filter volume fluctuations and pricing pressure while maintaining strong utilisation rates in its full-time staff. In 2009 Atos reduced the number of its subcontractors by 32% to help protect margin, and we believe Indra will do the same in 2011e should the top line remain weak. Cutting subcontractors to 9% of Indra's headcount would imply a c.1,000 FTEs reduction in subcontractors. Using the conservative assumption that Indra's subcontractors are paid at the same level as the average for the group (c.EUR38k – 40k) this would imply a EUR40m cost saving (c.2% of sales).

Our base case scenario is that Spain will not "collapse" but this does not prevent further budget cuts

With 65% of its sales in Spain and 60% of its revenues stemming from public sector-related segments, Indra's results and share price have obviously been impacted by Spain's economic difficulties and its commitment to reduce the deficit as a % of GDP.

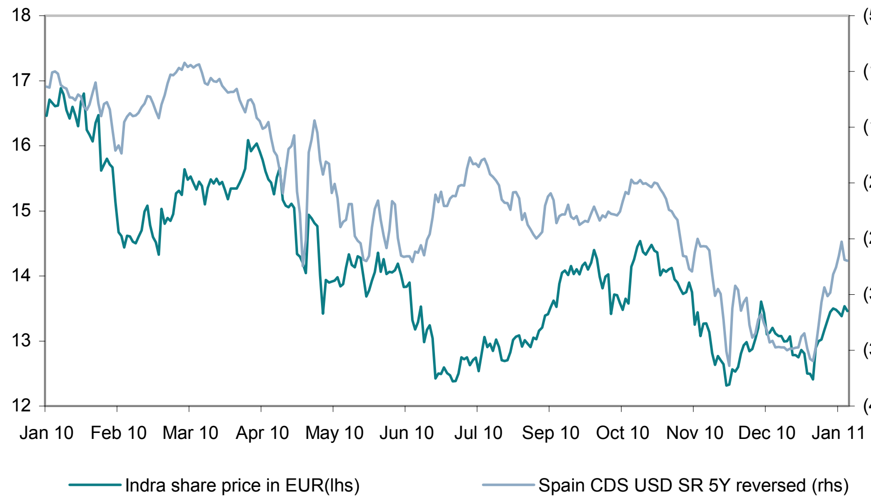
Though concerns remain high on Spain, our Economics team's point of view is that the situation is different for Spain vs other countries like Portugal, Greece, Ireland or Italy. Our Economics team forecasts a slight decline in GDP in Spain in 2011e (-0.3%) and the start of recovery in 2012e (0.8% growth). The upside risks on these forecasts are to be found mainly in exports, which remained dynamic in 2010 thanks to the German rebound and high growth in emerging countries such as Brazil. On the downside, we could see very subdued consumer spending, as VAT increases and sluggish wage growth are not exactly a positive mix.

Admittedly there remain mid to long-term issues on Spain (e.g. low productivity), but our Economics team firmly believes that there is limited risk of Spain plunging into a Greek-style crisis. Public debt in Spain was 46% of GDP in 2009 (62% end-2010) vs 115% for Greece. The main budgets cuts have now been disclosed and seem achievable. Spain has a limited level of public debt and as such should be able to cope with higher refinancing rate and the country's solvency is not at risk in the short–term. The other major issue is the recapitalisation of the banking system, for which the government is clearly setting new deadlines so that the process can be set in motion before the summer.

The yield on 10-year bonds remains high at 5.3%, but recent bond auctions in Spain were successful. For instance on 13 January, Spain sold EUR3bn of five–year bonds at a yield of 4.54%, 97bp higher than the previous auction in November but lower than the 130bp hike expected. The auction was 2.1 times oversubscribed.

We have looked at the current Spanish budget, with a specific focus on defence as we believe this is where Indra carries more risks and this is how we built our base case scenario. However there are still some uncertainties on whether Spain will have to further cut its budget and though heavy cuts have already been announced, any negative newsflow on that subject will obviously impact Indra's share price.

Figure 139: Indra's share price in EUR vs Spanish CDS (reversed)



Source: Datastream, Bloomberg

Spain should remain tough in 2011e but stabilise from 2012e onwards

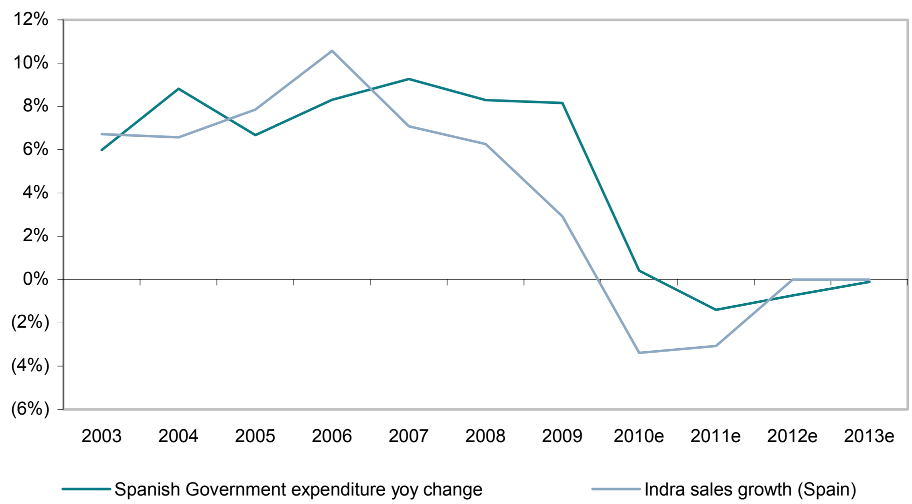
Strong correlation between Indra's revenues and the Spanish budget

Admittedly, there is a strong correlation between Indra's revenues and the Spanish government's budget and we expect growth to continue to be sluggish there. Spanish government spending is expected to continue to decrease in 2011e (-1%) and in 2012e (-1%) before stabilising in 2013e.

Based on our analysis by region and by sector, we estimate Indra's overall revenue growth at 2% in FY11e (this is in-line with the guidance) and 3% in FY12e. However, the growth will be driven by international markets as we expect Indra's top–line to remain sluggish in Spain in 2011e and to start to recover from 2012e onwards only (we estimate a 3% top–line decline in Spain in 2011e, in the same order of magnitude as 2010, and flat revenues in 2012e).

Figure 140: Indra's sales growth for the Spanish division vs Spanish government expenditure

Strong correlation between Indra's top–line growth in Spain and Spanish government expenditure



Source: Exane BNP Paribas estimates, Eurostat

Cuts in the defence budget

Indra realises c.24% of its revenues in the Defence area, of which we estimate half of it in Spain. We believe that Indra will suffer from cuts in the defence budget and expect Indra's Defence revenues to be down 10% in 2010e and 5% in 2011e and 2012e. We have here again backed our analysis by looking at the current Spanish Defence budget and at the correlation with Indra's defence revenues.

We estimate that c.30% of revenues in this division relate to maintenance vs 70% for new projects. Obviously it is difficult to obtain detailed information but we have listed below some key contracts, and with the help of Exane's Aerospace & Defence team tried to spot the ones at risk. We believe that Indra will continue to suffer from overhang on the Eurofighter and A400M contracts, but with limited risks of cancellation in our view.

Contract with the Spanish Navy – Indra is in charge of satellite communication systems for the S-70 submarines. Satellite communication systems will also be developed for the new version of the S-80 submarines that Navantia is developing for Spain.

Contracts in the UK – we estimate Indra has limited exposure

Eurofighter – the Eurofighter programme involves Spain, Germany, the UK and Italy (1998 agreement). As Eurofighter is a pan–European programme, we note that cuts will have to be implemented together with the partners, which is a protection against full cancellation, though on the other hand, deferrals in a partner country impact all countries.

A400M – Indra is also involved in the A400M programme, but to a lesser extent than in the Eurofighter programme. Visibility on the A400M remains low and we believe that the overhang should continue on that contract.

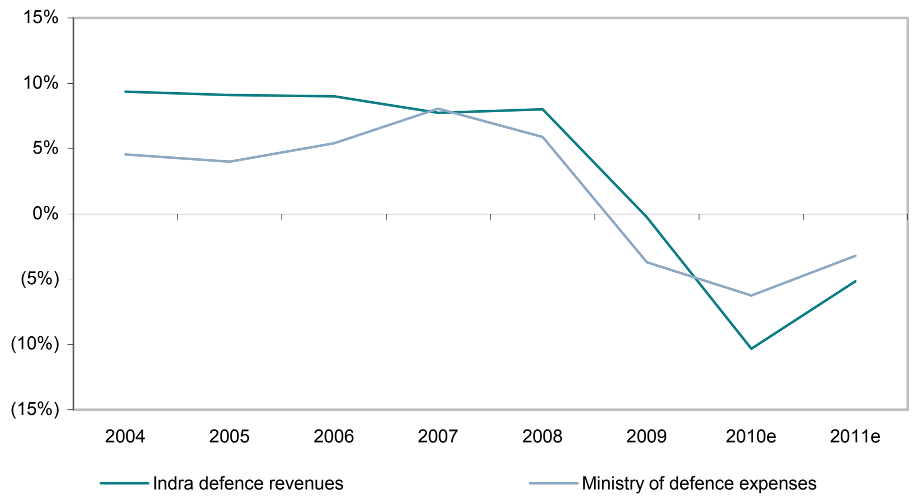
Galileo – Galileo is a global navigation satellite system (GNSS) being built by the European Union and the European Space Agency, which should be operational by 2013/2014. We know that Indra is involved in the project, but so far there is no significant risk on the European Space Agency budget.

US Navy & German Navy – both are Indra's clients. For instance, Indra equipped two U212 submarines belonging to the German Navy with its satellite communication systems. It also equipped two F122 German frigates with similar systems and will equip the Bremen and Ausburg F-122 frigates with satellite communication systems that have high voice and data transmission capacity. We see limited risks on those contracts.

SIVE – Indra is in charge of implementing its integrated surveillance system to protect territorial waters and coastline from a number of threats in several countries (SIVE: Sistema Integrado de Vigilancia - sea-surveillance radar systems, optronic platform with ultrared sensor and daylight-vision camera…). Areas under control are, for instance, Romania's Black Sea Border, various stretches of the Spanish coastline and in other countries such as Latvia and Hong–Kong. Surveillance system is less at risk in our view than the defence part of Indra's revenues.

The MK – 15 project. The MK 15 systems supplied by Indra are used by the navies of Australia, Spain, the United States, and Korea. In the past ten years, more than 74 MK 15 systems have been delivered, of which 63% were provided to the US Navy. Indra received the Supplier Excellence Award from Raytheon in March 2010 in recognition of its participation in the development of the AEGIS system. The award was granted in light of three control factors: meeting deadlines, continuous quality and commitment in the process of continuous improvement.

Figure 141: Indra's defence revenues vs Spanish defence budget (y/y growth)



Source: Exane BNP Paribas, Spanish budget 2010

Our base case scenario on Indra relies on Spain's current budget but we don't exclude further cuts

Spain already implemented cuts in its 2010e budget (government expenditures were up 8% in 2009 but slightly down in 2010e), which should continue into 2011e, but risks of further budget cuts down the road remain. On the downside, we estimate that Indra derives c.10% of its revenues from regional public administrations which seem in worse shape than the central government.

On the upside, we note that the Spanish IT Services market is more concentrated than other large European IT services markets, particularly in the public market. Indra, as the leading IT Services and solutions supplier in Spain (with a market share above 15%) could benefit from the reduction in the number of suppliers that usually occurs when governments / companies are trying to save costs.

Where we differ from consensus

Following Indra's FY11 guidance provided at the end of January, we believe that the main consensus downgrades are now past. Our forecasts are now roughly in–line with consensus though we are still a bit more cautious on the top–line and on 2011e margin.

We also note we have included in our forecasts EUR5m of restructuring costs in 2011e, though the company guided for no restructuring costs, as we believe some of the restructuring actions undertaken in 2010 might be prolonged into 2011e.

Figure 142: Indra – consensus expectation FY11e / FY12e

Y/E December In EURm	EBNPPe	FY11e Consensus	% from Consensus	EBNPPe	FY12e Consensus	% from Consensus
Sales	2,597	2,621	(1)	2,667	2,716	(2)
Y/y (%)	*2*	*2*		*3*	*4*	
Restated EBIT	277	283	(2)	291	295	(1)
EBIT margin (%)	*10.7*	*10.8*		*10.9*	*10.9*	
Y/y (%)	*(3)*	*2*		*5*	*4*	
Adjusted net income	202	196	3	211	206	2
Adjusted EPS (EUR)	1.24	1.22	2	1.30	1.29	1

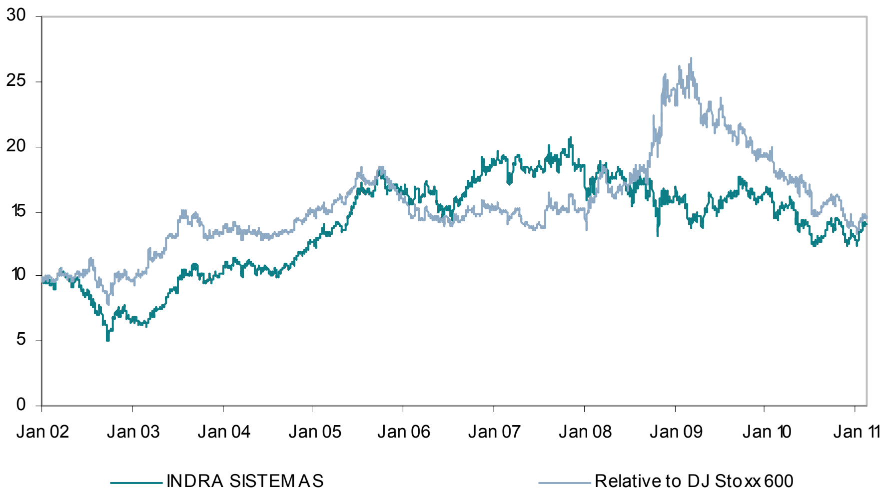
Source: Exane BNP Paribas estimates, Bloomberg

Valuation

18% underperformance to peers over the last 12 months

While Indra's shares proved one of the safest havens during the 2009 storm in IT Services, the sovereign debt crisis had a significant impact on the shares in 2010 (18% underperformance to peers) and we believe we are now back at a level which is worth looking at.

Figure 143: Indra share price performance

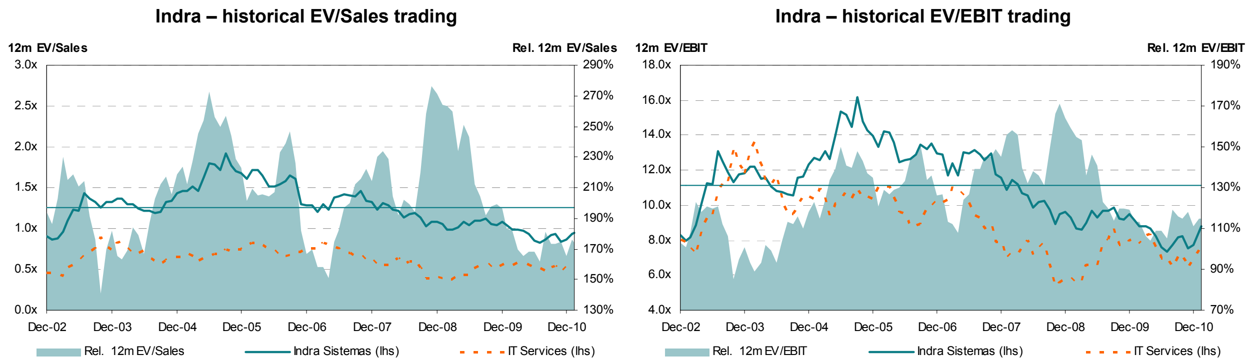


Source: Datastream

Historical valuation

Indra now trades at a 25% discount to historical EV/Sales (peers on 12% discount with their historical EV/Sales ratio) and at a 21% discount to historical EV/EBIT (peers at a 15% discount). Admittedly, Indra is still trading at a premium to peers on EV/EBIT but the premium has significantly reduced vs the peak of 170% end-2008 and now stands at 110% vs its historical average of 130%.

Figure 144: Indra's shares are trading below historical average



Source: Exane BNP Paribas, Factset, MSCI

Our EUR15.5 target price is based on a DCF analysis

Our DCF is based on a WACC of 9.3%. We use a risk-free rate of 3% and an equity risk premium of 6%, in line with Exane BNP Paribas' universe. We have added a country risk premium of 3.3% for the Spanish part of the business to take into account the higher risk on Spain vs other countries. Our long-term growth rate for Indra stands at 2%, as for other companies in the sector.

Over our forecast period (2009/19e), we assume compound revenue growth of 2.8% and an average EBIT margin of 10.9%. Our long-term margin assumption is 10.5%. This compares with organic top-line growth of 10% over 2001-09 and an adjusted EBIT margin of 11.2%. Though Indra didn't post any restructuring costs until 2009, we have included in our DCF model average restructuring costs at 0.4% of sales over our forecast period.

Our DCF analysis points to a share value of EUR15.5, which we use as a TP.

Figure 145: Indra DCF analysis

Y/E Dec 31 (EURm)	FY 2010e	FY 2011e	FY 2012e	FY 2013e	FY 2014e	FY 2015e	FY 2016e	FY 2017e	FY 2018e	FY 2019e	Normal-ised	CAGR 09-19e
Revenues	**2,557**	**2,597**	**2,667**	**2,778**	**2,900**	**3,057**	**3,087**	**3,118**	**3,180**	**3,238**	**3,302**	**2.8**
% change	**1.7%**	**1.6%**	**2.7%**	**4.1%**	**4.4%**	**5.4%**	**1.0%**	**1.0%**	**2.0%**	**1.8%**	**2.0%**	
Adjusted EBITDA	**329**	**324**	**339**	**364**	**371**	**394**	**392**	**390**	**391**	**398**	**406**	
as a % of sales	**12.9%**	**12.5%**	**12.7%**	**13.1%**	**12.8%**	**12.9%**	**12.7%**	**12.5%**	**12.3%**	**12.3%**	**12.3%**	
Depreciation	43	47	48	50	52	55	56	56	57	58	59	
Adjusted EBITA	**285**	**277**	**291**	**314**	**319**	**339**	**337**	**334**	**334**	**340**	**347**	**1.7**
as a % of sales	**11.2%**	**10.7%**	**10.9%**	**11.3%**	**11.0%**	**11.1%**	**10.9%**	**10.7%**	**10.5%**	**10.5%**	**10.5%**	
Restructuring costs	(33.3)	(5.2)	(6.7)	(6.9)	(7.2)	(7.6)	(15.3)	(21.6)	(21.8)	(22.3)	(22.7)	
Tax	(51)	(63)	(68)	(75)	(78)	(85)	(86)	(85)	(85)	(87)	(88)	
Tax rate (%)	18.0%	22.5%	23.4%	24.0%	24.5%	25.0%	25.5%	25.5%	25.5%	25.5%	25.5%	
NOPAT (post restructuring costs)	207	211	218	233	235	249	239	232	232	237	241	0.8
Change in NWC	(152)	(34)	(15)	(9)	(10)	(24)	(15)	(6)	(13)	(12)	(14)	
Capex	(32)	(39)	(46)	(48)	(52)	(58)	(58)	(59)	(60)	(61)	(62)	
Depreciation	43	47	48	50	52	55	56	56	57	58	59	
Free Cash Flow (FCF)	**66**	**184**	**205**	**227**	**225**	**222**	**222**	**223**	**217**	**222**	**225**	**3.0**
Year			1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	
Discount rate			0.9	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.5	
Present Value (PV) FCF			**187**	**190**	**173**	**155**	**142**	**131**	**117**	**109**	**101**	
WACC	**9.3%**											
Terminal growth	**2.0%**											
Sum of PV of FCF	1,203											
Terminal value	1,507											
Implied Enterprise Value (EV)	**2,710**											
Net cash/debt (2011e)	(237)											
Dividends to be paid in 2011e	107											
Value of Associates (2011e)	44											
Value of Minorities	(94)											
Tax assets/pension liabs	(3)											
Implied market capitalisation	**2,525**											
Shares in issue	162.5											
Implied share price (EUR)	**15.5**											

Source: Exane BNP Paribas estimates

We acknowledge that WACC and terminal growth assumptions are controversial and we have therefore performed a sensitivity analysis of our implied target price to these assumptions.

Figure 146: Indra – sensitivity of DCF valuation to WACC and terminal growth

Share price in EUR		WACC							
		7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%
Terminal growth	0.0%	19	18	17	16	15	15	13	12
	0.5%	19	18	17	16	15	15	13	12
	1.0%	20	19	17	16	15	15	13	13
	1.5%	22	20	18	17	16	16	14	13
	2.0%	23	21	19	18	16	16	14	13
	2.5%	25	22	20	19	17	17	15	14
	3.0%	27	24	22	20	18	18	15	14
	3.5%	30	26	23	21	19	19	16	15

Source: Exane BNP Paribas estimates

Further, our bear and bull case target prices of EUR20 and EUR10 suggest a "neutral" risk/reward at EUR15, 5% above the current share price, and are based on a DCF analysis using "best" and "low assumptions" disclosed in the table below.

Figure 147: DCF scenarios

	Bull	Bear	Base
Revenue CAGR 11/14e	**4.7%**	**1.0%**	**3.7%**
Top - line growth in Latin America	Market share gain in Latin America, coming on top of the inherent strong growth of the market, leading to c. 15% CAGR for Indra in Latin America	Increasing competition in Latin America and loss of market share leading to only 5% CAGR top-line	Continuous growth in the Latin American market, with c. 12% CAGR revenues over the forecast period
Top - line growth in Spain	The Spanish market bounces back to 2% yearly growth on average	No recovery of the Spanish and European markets with a negative 1% CAGR over the forecast period	Mild recovery of the local market from 2012e onwards, with a market which remains overall flatish over the forecast period
Operating profit CAGR 11/14e	**7.5%**	**-5.7%**	**4.8%**
Average operating margin 11/14e	**11.1%**	**9.8%**	**11.0%**
Peak operating margin 11/14e	11.6%	10.7%	11.3%
Trough operating margin 11/14e	10.7%	8.7%	10.7%
Operating expenses	Back to an environment of strong growth and to the average operating margin experienced over the previous cycle	Progressive erosion of margin as pricing pressure in the local market is only partly offset by the move offshore	Use of offshore headcount and reduction of subcontractors enable in the short - term to partly offset the pricing pressure. Margin enhancement in international activities helps to improve the group's margin over time
Pricing pressure	Strong technological edge enables Indra to limit pricing pressure	Continuous pricing pressure in Spain	Pricing pressure start to abate in Spain from 2012e
Enterprise value (EURm)	**3,437**	**1,761**	**2,730**
Implied share price (EUR)	**20**	**10**	**15.5**
Upside / downside	*40%*	*-32%*	*9%*
Historical data			
Revenue CAGR 01/10	14.2%	14.2%	14.2%
Operating profit CAGR 01/10	14.6%	14.6%	14.6%
Average operating margin 01/10	11.3%	11.3%	11.3%
Peak operating margin 01/10	11.8%	11.8%	11.8%
Trough operating margin 01/10	10.6%	10.6%	10.6%

Source: Exane BNP Paribas estimates

Figure 148: Target price

Bull case	**20**	Revenues: CAGR 2011-14e: 4.7%
Base case	**15.5**	Revenues: CAGR 2011-14e: 3.7%
Bear case	**10**	Revenues: CAGR 2011-14e: 1.0%

Source: Exane BNP Paribas estimates

Where we could be wrong

Main risk – news on Spain

The main risks on the upside as on the downside would be any news on the Spanish markets. As already highlighted in this report our base case scenario is that Spain will not collapse and will not announce further unexpected budget cuts. However, any negative news flow on sovereign debt in Europe will obviously weigh on the shares.

Further cuts in the Spanish public sector or stronger-than-expected pricing pressure (which would weigh on margins) would also hit Indra's results.

Risks on Caja Madrid's 20% stake

Another risk coming from Spain is that more pressure on the troubled regional savings banks or "cajas" could lead Caja Madrid, Indra's main shareholder with a 20% stake, to sell its shares. We don't believe Caja Madrid wants to sell its shares in Indra (long–term investors and strategic relationships) but should Caja Madrid really need additional capital, there is no good reason for them not to dispose off the stake in Indra.

The Spanish government raised on 24 January the minimum tier 1 requirement for banks, with the new requirement to be met by September. One way for banks to meet the new requirement would be to sell their industrial holdings.

Caja Madrid is now part of Banco Financciero y de Ahorros, a new financial group born at the end of 2010 of the union of seven Spanish companies (Caja Madrid, Bancaja and five other *cajas*) which could be compelled to raise between two and three billion euros to comply with the new rules on Spanish banks. Caja Madrid's current portfolio is worth some EUR2.8bn and Bancaja's portfolio is worth c.EUR2.4bn (excluding a 6% stake in Martinsa which is no longer listed).

Figure 149: Caja Madrid's and Bancaja's industrial holdings portfolio

Caja Madrid's industrial holdings	Stake	Value in EURm
Iberia (now IAG)	12%	653
Mapfre	15%	1,235
Indra	20%	471
Realia	28%	134
NH Hoteles	10%	110
SOS Alimentaria	18%	132
BME	5%	89
Total value in EURm		**2,823**
Bancaja's industrial holdings	**Stake**	**Value in EURm**
Iberdrola	6%	2,038
Enagas	5%	194
NH Hoteles	6%	62
Martinsa	6%	Not listed
Colonial	1%	12
Abertis	1%	95
Total value in EURm		**2,401**
Total value (Caja Madrid and Bancaja) in EURm		**5.224**

Source: Exane BNP Paribas estimates, Bloomberg

Caja Madrid has been a shareholder in Indra since 1999, starting with a 10.5% stake which it raised to 15.5% in 2005 and then 20% in 2008.

1) Good return on investment so far. We estimate that Caja Madrid spent some EUR50m in 1999, EUR106m in 2005 and EUR122m in 2008 to come to its current 20% stake in Indra. On top of that, Indra has distributed dividends throughout the period and as such, we estimate that should Caja Madrid need to sell its stake in Indra at the current share price, it would have generated a c.12% yearly return (10% if we take the assumption that Caja Madrid will sell with a 15% discount to the current share price). A very decent investment, and as such we can't argue that Caja Madrid won't sell because it is waiting to get a good return on its investment.

2) Caja Madrid’s investment in Indra is actually worth some EUR470m. Admittedly, it won't make a significant difference for Caja Madrid but should it need money it is still worth taking.

3) Caja Madrid is a client of Indra (we estimate c.1% of revenues), which can go both ways. One can argue that due to the strategic relationship that they have, Caja Madrid will be less tempted to sell its stake. The union between the *cajas* can even create some opportunities for Indra with new clients. On the other hand, the reverse is also possible, with Indra losing one client due to the union between the *cajas*. Moreover if Caja Madrid starts selling its shares, investors might worry that on top of the share disposal Indra might lose a client.

Working capital: the bulk of the hit should be in 2010e

On the negative side, we also note the deterioration in working capital, and although our analysis suggests the brunt of the hit should be in 2010e, should W/C deteriorate further going forward, we also believe there is a risk of a dividend cut

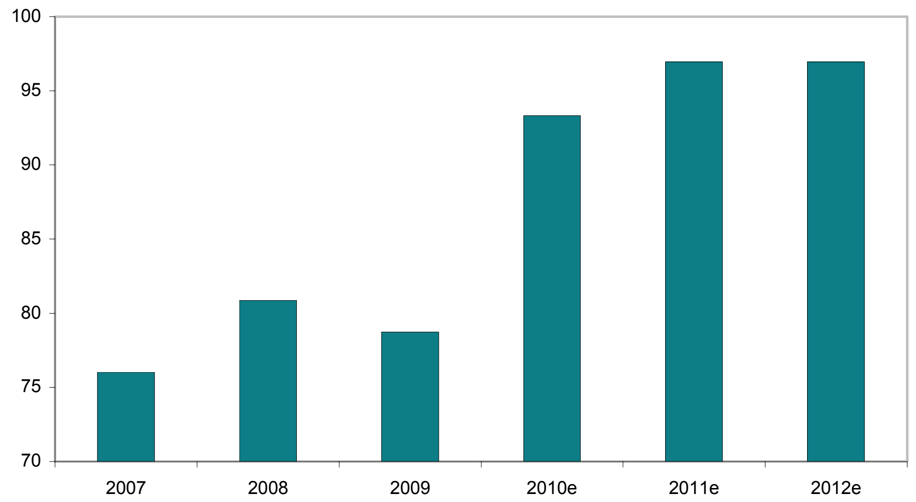
Working capital has been a problem at Indra in recent years, and has eroded the company’s cash flow generation. Working capital has jumped from about 2% of sales in the 2001-2004 period to 18-20% currently. We believe that the main hit in terms of working capital should be in 2010e, with Indra’s clients under pressure on the financing side. We expect Indra’s DSO to continue to slightly deteriorate in 2011e before starting to recover in 2012e.

The major impact is that clients are paying less upfront for Indra’s work, meaning that accrued revenues (i.e. those booked in the P&L but where cash has not been received and no invoice has been sent) have increased materially. The net of these two balance sheet items has moved from -35% of sales in 2003 (i.e. a significant source of cash) to +3% in 2009. This is the major driver behind the decline in cash flow from operations, which we estimate fell from an average of 11.6% of sales in 2002- 2004 to 7.4% in 2005-2009.

The trend did not improve in H1 10, when working capital (as defined by Indra) represented 92 days of sales vs 84 last year due to a decrease in client prepayments. Indeed in H1 10e, DSO on current assets increased to 226 days from 216 days a year ago. Meanwhile, there was little change in DSO on current liabilities (134 days vs 131 days a year ago). We do not expect the situation to improve in the coming quarters. We estimate that Indra will end 2010e with working capital representing 93 days of sales vs 79 in 2009. This is in the mid-range of Indra’s own guidance in DSO (90-95 days).

We expect Indra’s DSO to continue to slightly deteriorate in 2011e to 97 days of sales before stabilising in 2012e. We estimate that the main hit as regards free cash flow will be in 2010e when Indra should generate only EUR20m of free cash flows vs EUR109m the year before. The situation should improve in 2011e, and we forecast EUR129m of free cash flow in our base case.

Figure 150: Indra's net working capital in DSO



Source: Exane BNP Paribas estimates

On the debt side, as shown in the funding analysis disclosed at the end of this report, our base case points to a short-term refinancing gap. Indeed, part of Indra's debt is short-term (EUR99m out of EUR201m at end-December 2009). In our base case, we believe that Indra will continue to secure short-term financing, as usual, given its strong relationship with major Spanish savings banks. We also note that at the end of 2009, Indra had a EUR85m credit line available, as disclosed in its annual report.

Appendices

Figure 151: Indra's top-line growth by division

Indra **Y/E Dec. 31 (EURm)**	**FY** **2009**	**FY** **2010e**	**FY** **2011e**	**FY** **2012e**
By verticals				
Transport & Traffic	497.6	549.9	590.7	632.0
Telecom & Media	270.2	301.9	316.1	328.8
P.A. & Healthcare	347.5	364.2	354.7	361.8
Finance & Insurance	334.4	369.4	396.2	416.0
Energy & Industry	381.6	359.8	359.8	377.8
Defence	682.0	611.4	579.9	550.9
Total revenues	**2,513**	**2,557**	**2,597**	**2,667**
Transport & Traffic y/y change	15%	11%	7%	7%
Telecom & Media y/y change	11%	12%	5%	4%
P.A. & Healthcare y/y change	5%	5%	(3%)	2%
Finance & Insurance y/y change	7%	10%	7%	5%
Energy & Industry y/y change	2%	(6%)	0%	5%
Defence y/y change	(0%)	(10%)	(5%)	(5%)
Total revenues y/y change	**6%**	**2%**	**2%**	**3%**
By region				
Spain	1,613.0	1,558.4	1,510.7	1,510.7
European Union	448.5	441.7	436.6	427.9
North America	31.6	22.0	21.0	21.0
Latin America	264.0	349.0	423.4	486.9
Other	156.1	185.8	205.6	220.7
Total revenues	**2,513**	**2,557**	**2,597**	**2,667**
Spain y/y change	3%	(3%)	(3%)	0%
European Union y/y change	16%	(2%)	(1%)	(2%)
North America y/y change	(41%)	(31%)	(4%)	0%
Latin America y/y change	15%	32%	21%	15%
Other y/y change	9%	19%	11%	7%
Total revenues y/y change	**6%**	**2%**	**2%**	**3%**

Source: Exane BNP Paribas estimates

INDRA (Neutral)

IT Services (Neutral) - Spain

Price at 17 Feb. 11 / Target Price

EUR14.3 / EUR15.5 +8%

Business

Indra is Spain's largest IT services company, with a market share of 14% and around 26,000 employees. Indra's business model differs markedly from those of traditional IT Services companies, as 73% of its revenues come from solutions, most of which (90%) are developed by Indra in-house. The company is mainly exposed to "resilient" businesses (public sector, utilities, defence).

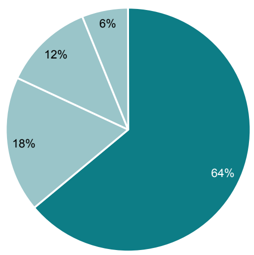
Management

Javier Monzón, Chairman
Regino Moranchel, CEO
Juan Carlos Baena, CFO
Javier Marin, Investor Relations

Shareholders

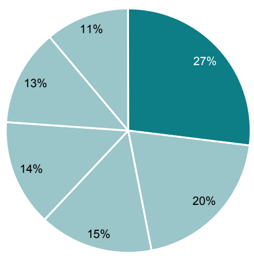
Caja Madrid	20.0%
Corporacion Financiera Alba	10.0%
Del Pino Family	6.0%
Gas Natural	5.0%
Caja de Ahorros	5.0%
Other Shareholders	54.0%

2009 sales by region



- 64% Iberia
- 18% Europe
- 12% Americas
- 6% Other

2009 sales by activity



- 27% Defence
- 20% Transport & Traffic
- 15% Energy
- 14% Public/Health
- 13% Finance
- 11% Telecom/Media

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Peer group YTD performance

Stock	Price (17 Feb. 11)		YTD performance in EUR (%) Abs.	Rel. Sector
Econocom (=)	EUR	14.1	40.6	22
Altran (+)	EUR	4.18	28.5	11
Capgemini (+)	EUR	42.9	22.8	6
Sopra (-)	EUR	69.5	20.2	4
Steria (=)	EUR	22.4	15.3	(0)
Logica Plc (=)	p	147	14.9	(0)
Indra (=)	EUR	14.3	12.2	(3)
Alten (=)	EUR	26.4	7.5	(7)
Atos Origin (+)	EUR	42.6	6.9	(7)
Tieto (-)	EUR	14.0	(0.9)	(14)

Sector calendar

22	Feb.	11	**Sopra**: FY 2010 Results
23	Feb.	11	**Logica Plc**: FY 2010 Results
24	Feb.	11	**Indra**: FY 2010 Results
28	Feb.	11	**Steria**: FY 2010 Results (Post Mkt)
02	Mar.	11	**Alten**: Analyst Meeting
			Alten: FY 2010 Results
14	Mar.	11	**Altran**: FY 2010 Results
16	Mar.	11	**Econocom**: FY 2010 Results
24	Mar.	11	**Tieto**: AGM
14	Apr.	11	**Atos Origin**: Q1 2011 Sales
21	Apr.	11	**Econocom**: Q1 2011 Sales
28	Apr.	11	**Tieto**: Q1 2011 Results
02	May	11	**Altran**: Q1 2011 Sales
			Steria: Q1 2011 Sales (Post Mkt)
04	May	11	**Logica Plc**: Q1 2011 Sales
			Logica Plc: AGM
			Sopra: Q1 2011 Sales
05	May	11	**Capgemini**: Q1 2011 Sales
10	May	11	**Alten**: Q1 2011 Sales
12	May	11	**Indra**: Q1 2011 Results
13	May	11	**Steria**: AGM (14:00 CET)
17	May	11	**Capgemini**: Q1 2011 Results
18	May	11	**Econocom**: AGM
25	May	11	**EDB**: Ex & Div. Payment (0NOK)
26	May	11	**Capgemini**: AGM
27	May	11	**Atos Origin**: AGM
16	Jun.	11	**Capgemini**: Analyst Meeting
22	Jun.	11	**Sopra**: AGM
24	Jun.	11	**Indra**: AGM
29	Jun.	11	**Alten**: AGM
			Altran: AGM
22	Jul.	11	**Tieto**: Q2 2011 Results
28	Jul.	11	**Alten**: Q2 2011 Sales
			Altran: H1 2011 Sales
			Atos Origin: H1 2011 Results
			Capgemini: H1 2011 Results
			Econocom: H1 2011 Sales
			Indra: H1 2011 Results
			Steria: H1 2011 Results (Post Mkt)
05	Aug.	11	**Logica Plc**: H1 2011 Results
31	Aug.	11	**Altran**: H1 2011 Results
			Econocom: H1 2011 Results
28	Sep.	11	**Alten**: H1 2011 Results
13	Oct.	11	**Atos Origin**: Q3 2011 Sales
21	Oct.	11	**Econocom**: Q3 2011 Sales
25	Oct.	11	**Tieto**: Q3 2011 Results
31	Oct.	11	**Altran**: Q3 2011 Sales
02	Nov.	11	**Logica Plc**: Q3 2011 Sales
			Steria: Q3 2011 Sales (Post Mkt)

Price at 17 Feb. 11 / Target Price

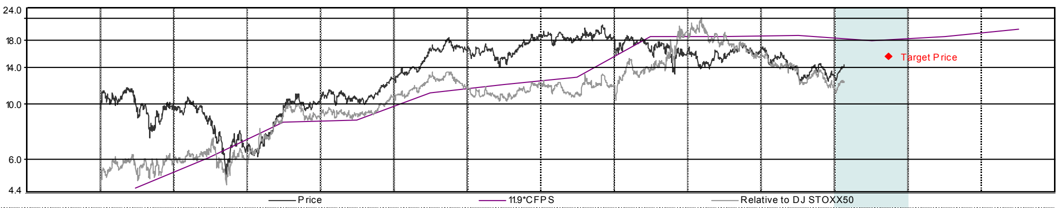
EUR14.3 / EUR15.5 +8%

Reuters / Bloomberg: IDR.MC / IDR SM   Analyst: Isalina Trocherie (+44) 207 039 9442

INDRA (Neutral)

IT Services (Neutral) - Spain

Company Highlights			**EURm**
Enterprise value			2,644
Market capitalisation			2,331
Free float			1,725
3m average volume			12
Performance (*)	**1m**	**3m**	**12m**
Absolute	8%	8%	2%
Rel. Sector	(2%)	(12%)	(18%)
Rel. DJ STOXX50	4%	(1%)	(11%)
12m Hi/Lo (EUR) : 16.1 -11% / 12.3 +16%			
CAGR	**2002/2010**		**2010/2013**
EPS restated (**)	14%		1%
CFPS	15%		2%



Price (yearly avg from Dec. 01 to Dec. 10)	*9.9*	*8.3*	*8.7*	*10.9*	*15.4*	*16.5*	*18.7*	*16.9*	*15.8*	*14.2*	*14.3*	*14.3*	*14.3*
PER SHARE DATA (EUR)	**Dec. 01**	**Dec. 02**	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10e**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
No of shares year end, basic, (m)	147.902	147.902	147.902	154.289	146.188	146.188	164.133	164.133	164.133	164.133	164.133	164.133	164.133
Average no of shares, diluted, excl. treasury stocks (m)	147.902	151.534	154.397	154.289	147.242	143.575	161.437	160.101	161.053	162.485	162.485	162.485	162.485
EPS reported	*0.32*	*0.38*	*0.46*	*0.52*	*0.71*	*0.79*	*0.92*	*1.14*	*1.21*	*1.16*	*1.21*	*1.26*	*1.36*
EPS restated	0.35	0.48	0.59	0.56	0.71	0.79	1.02	1.14	1.22	1.36	1.24	1.30	1.41
% change	*NS*	*36.4%*	*24.0%*	*(5.4%)*	*26.4%*	*12.5%*	*28.5%*	*12.0%*	*6.7%*	*11.7%*	*(8.7%)*	*4.5%*	*8.6%*
CFPS	0.39	0.51	0.72	0.73	0.93	1.01	1.08	1.57	1.57	1.59	1.52	1.57	1.69
Book value (BVPS) (a)	1.5	1.7	2.3	2.6	1.9	2.4	4.2	4.8	5.7	6.1	6.6	7.3	8.0
Net dividend	0.08	0.11	0.16	0.52	0.39	0.43	0.50	0.61	0.67	0.65	0.61	0.69	0.75
STOCKMARKET RATIOS	**YEARLY AVERAGE PRICES for end Dec. 01 to Dec. 10**				**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10e**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
P / E (P/ EPS restated)	28.4x	17.4x	14.8x	19.6x	21.8x	20.7x	18.3x	14.8x	12.9x	10.4x	11.5x	11.0x	10.2x
P / E relative to DJ STOXX50	118%	78%	93%	140%	165%	187%	168%	110%	112%	98%	113%	119%	117%
P / CF	25.5x	16.2x	12.2x	15.0x	16.5x	16.3x	17.3x	10.8x	10.1x	8.9x	9.5x	9.1x	8.5x
FCF yield	1.5%	6.5%	6.9%	5.5%	2.4%	4.6%	3.0%	5.2%	6.0%	3.1%	7.2%	8.0%	9.0%
P / BVPS	6.70x	4.81x	3.84x	4.21x	7.97x	6.97x	4.41x	3.56x	2.78x	2.33x	2.16x	1.96x	1.80x
Net yield	0.9%	1.3%	1.9%	4.8%	2.5%	2.6%	2.7%	3.6%	4.2%	4.6%	4.2%	4.8%	5.2%
Payout	24.2%	22.9%	27.6%	93.1%	55.2%	54.1%	49.0%	53.3%	54.7%	47.8%	48.7%	53.3%	53.0%
EV / Sales	2.23x	1.47x	1.23x	1.49x	1.95x	1.85x	1.54x	1.25x	1.12x	1.03x	1.02x	0.98x	0.93x
EV / Restated EBITDA	17.9x	11.5x	9.5x	12.0x	14.7x	14.1x	12.2x	9.6x	8.5x	8.0x	8.2x	7.7x	7.1x
EV / Restated EBITA	20.6x	13.3x	11.1x	14.0x	16.5x	15.9x	13.8x	10.9x	9.8x	9.2x	9.5x	9.0x	8.2x
EV / OpFCF	35.7x	12.1x	10.2x	13.8x	28.3x	16.0x	20.2x	14.7x	11.6x	21.3x	10.6x	9.5x	8.4x
EV / Capital employed (incl. gross goodwill)	10.7x	6.3x	6.3x	10.4x	9.0x	5.9x	3.2x	3.1x	2.5x	2.0x	2.0x	1.9x	1.8x
ENTERPRISE VALUE (EURm)	**1,725**	**1,281**	**1,208**	**1,610**	**2,345**	**2,598**	**3,330**	**2,965**	**2,806**	**2,624**	**2,644**	**2,616**	**2,570**
Market cap	1,469	1,227	1,293	1,689	2,272	2,368	3,025	2,710	2,539	2,302	2,331	2,331	2,331
+ Adjusted net debt	(75)	(37)	(137)	(205)	(54)	59	150	149	135	239	237	209	163
+ Other liabilities and commitments	15	5	4	5	3	21	9	3	50	23	24	24	25
+ Revalued minority interests	395	164	137	151	158	180	183	146	124	103	96	96	96
- Revalued investments	80	79	89	30	34	30	37	43	41	43	44	44	44
P & L HIGHLIGHTS (EURm)	**Switch to IFRS data from FY ended 12/05**			**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10e**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
Sales	**774.3**	**873.6**	**981.4**	**1,079.2**	**1,202.2**	**1,406.8**	**2,167.6**	**2,379.6**	**2,513.2**	**2,556.7**	**2,597.4**	**2,667.3**	**2,777.8**
Restated EBITDA (b)	**96.3**	**111.5**	**127.2**	**134.3**	**159.9**	**184.4**	**273.9**	**309.1**	**328.8**	**328.5**	**324.1**	**338.8**	**363.9**
Depreciation	(12.7)	(15.4)	(18.1)	(19.5)	(17.5)	(20.8)	(33.4)	(37.7)	(42.0)	(43.1)	(46.8)	(48.0)	(50.0)
Restated EBITA (b) (**)	**83.7**	**96.0**	**109.1**	**114.8**	**142.3**	**163.6**	**240.5**	**271.4**	**286.8**	**285.4**	**277.3**	**290.7**	**313.9**
Reported operating profit (loss)	83.7	96.0	109.1	114.8	142.3	163.6	224.0	270.4	285.4	252.1	272.1	284.1	306.9
Net financial income (charges)	0.8	0.3	4.6	4.4	4.5	(1.4)	(12.7)	(22.9)	(24.9)	(16.0)	(15.8)	(14.3)	(11.4)
Affiliates	(1.8)	(0.6)	0.6	(6.3)	(0.8)	0.5	1.7	3.5	0.2	0.1	0.4	0.4	0.4
Other	(1.9)	(12.2)	(17.6)	(1.9)	(0.7)	(0.5)	(0.2)	0.1	0.0	0.0	0.0	0.0	0.0
Tax	(19.6)	(14.4)	(18.8)	(22.8)	(37.9)	(44.2)	(57.4)	(65.0)	(62.7)	(48.4)	(59.0)	(64.8)	(74.0)
Minorities	(11.7)	(8.1)	(2.1)	(4.5)	(3.4)	(3.8)	(7.0)	(3.7)	(2.4)	0.4	(0.6)	(0.6)	(0.6)
Goodwill amortisation	(1.4)	(3.6)	(4.2)	(3.7)	-	-	-	-	-	-	-	-	-
Net attributable profit reported	48.0	57.4	71.7	80.0	104.1	114.1	148.4	182.4	195.6	188.2	197.1	204.7	221.3
Net attributable profit restated (c)	**50.4**	**68.5**	**86.9**	**82.6**	**104.1**	**114.1**	**164.9**	**183.1**	**196.6**	**221.5**	**202.3**	**211.3**	**229.5**
CASH FLOW HIGHLIGHTS (EURm)	**Dec. 01**	**Dec. 02**	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10e**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
EBITDA (reported)	**96.3**	**111.5**	**127.2**	**134.3**	**159.9**	**184.4**	**257.4**	**309.1**	**328.8**	**295.2**	**318.9**	**332.1**	**357.0**
EBITDA adjustment (b)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**16.5**	**0.0**	**0.0**	**33.3**	**5.2**	**6.7**	**6.9**
Other items	(6.2)	(11.0)	4.4	(0.4)	5.7	9.4	(23.2)	(0.3)	9.1	(22.1)	(1.1)	(2.3)	(2.2)
Change in WCR	(25.0)	27.1	1.1	(5.4)	(70.1)	(11.4)	(45.6)	(77.5)	(66.4)	(151.8)	(34.1)	(15.4)	(8.9)
Operating cash flow	**65.1**	**127.6**	**132.6**	**128.5**	**95.5**	**182.4**	**205.1**	**231.3**	**271.4**	**154.7**	**288.9**	**321.1**	**352.8**
Capex	(16.8)	(22.1)	(14.6)	(12.0)	(12.6)	(20.4)	(40.1)	(29.1)	(28.8)	(31.6)	(39.2)	(45.6)	(47.5)
Operating free cash flow (OpFCF)	**48.3**	**105.5**	**118.0**	**116.5**	**82.9**	**162.0**	**165.1**	**202.2**	**242.6**	**123.0**	**249.7**	**275.5**	**305.3**
Net financial items + tax paid	(19.6)	(14.4)	(18.8)	(15.7)	(23.6)	(44.1)	(68.9)	(52.4)	(82.5)	(47.9)	(75.9)	(80.3)	(86.7)
Free cash flow	**28.7**	**91.1**	**99.2**	**100.8**	**59.3**	**117.9**	**96.2**	**149.8**	**160.1**	**75.1**	**173.8**	**195.2**	**218.6**
Net financial investments & acquisitions	(66.6)	(73.3)	(7.6)	(9.3)	(24.2)	(148.8)	(39.3)	(15.1)	(19.7)	(19.3)	(20.0)	(20.0)	(10.0)
Other	0.0	(37.8)	5.6	3.0	(5.4)	(25.9)	(20.7)	(29.6)	(37.8)	(39.6)	(45.0)	(47.3)	(49.1)
Capital increase (decrease)	(1.1)	(4.0)	19.7	0.0	(102.9)	0.0	1.0	(21.5)	12.9	(13.9)	0.0	0.0	0.0
Dividends paid	(11.9)	(13.5)	(16.6)	(26.6)	(77.9)	(56.2)	(128.8)	(82.4)	(101.0)	(106.8)	(107.0)	(99.5)	(113.7)
Increase (decrease) in net financial debt	**50.9**	**37.5**	**(100.3)**	**(67.8)**	**151.1**	**113.0**	**91.6**	**(1.3)**	**(14.6)**	**104.5**	**(1.8)**	**(28.4)**	**(45.7)**
Cash flow, group share	**58**	**77**	**110**	**112**	**138**	**145**	**174**	**251**	**252**	**259**	**246**	**255**	**274**
BALANCE SHEET HIGHLIGHTS (EURm)	**Dec. 01**	**Dec. 02**	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10e**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
Fixed operating assets, incl. gross goodwill	149	184	172	146	194	312	622	662	716	723	736	754	761
WCR	13	19	19	8	67	132	417	305	419	571	605	620	629
Capital employed, incl. gross goodwill	**162**	**204**	**191**	**154**	**262**	**443**	**1,040**	**967**	**1,135**	**1,295**	**1,341**	**1,374**	**1,390**
Shareholders' funds, group share	219	255	337	402	283	346	697	781	932	996	1,090	1,199	1,311
Minorities	59	34	36	36	20	26	42	42	45	45	45	46	47
Provisions/ Other liabilities	43	28	23	32	68	75	98	66	94	95	49	0	(50)
Net financial debt (cash)	(75)	(37)	(137)	(205)	(54)	59	150	149	135	239	237	209	163
FINANCIAL RATIOS (%)	**Dec. 01**	**Dec. 02**	**Dec. 03**	**Dec. 04**	**Dec. 05**	**Dec. 06**	**Dec. 07**	**Dec. 08**	**Dec. 09**	**Dec. 10e**	**Dec. 11e**	**Dec. 12e**	**Dec. 13e**
Sales (% change)	NS	12.8%	12.3%	10.0%	11.4%	17.0%	54.1%	9.8%	5.6%	1.7%	1.6%	2.7%	4.1%
Organic sales growth	11.0%	13.7%	12.6%	10.6%	9.4%	9.7%	10.9%	10.2%	6.3%	0.4%	1.9%	2.7%	4.1%
Restated EBITA (% change) (**)	NS	14.8%	13.6%	5.2%	24.0%	14.9%	47.0%	12.8%	5.7%	(0.5%)	(2.8%)	4.8%	8.0%
Restated attributable net profit (% change) (**)	NS	39.4%	26.3%	(5.3%)	20.6%	9.7%	44.5%	11.1%	7.4%	12.7%	(8.7%)	4.5%	8.6%
Personnel costs / Sales	33.3%	31.4%	29.7%	29.3%	29.3%	32.6%	38.8%	41.1%	40.1%	40.7%	40.6%	40.6%	40.6%
Restated EBITDA margin	12.4%	12.8%	13.0%	12.4%	13.3%	13.1%	12.6%	13.0%	13.1%	12.9%	12.5%	12.7%	13.1%
Restated EBITA margin	10.8%	11.0%	11.1%	10.6%	11.8%	11.6%	11.1%	11.4%	11.4%	11.2%	10.7%	10.9%	11.3%
Tax rate	24.3%	17.2%	19.4%	20.5%	26.1%	27.3%	27.0%	25.9%	24.1%	20.5%	23.0%	24.0%	25.0%
Net margin	7.7%	7.5%	7.5%	7.8%	8.9%	8.4%	7.2%	7.8%	7.9%	7.3%	7.6%	7.7%	8.0%
Capex / Sales	2.2%	2.5%	1.5%	1.1%	1.0%	1.5%	1.8%	1.2%	1.1%	1.2%	1.5%	1.7%	1.7%
OpFCF / Sales	6.2%	12.1%	12.0%	10.8%	6.9%	11.5%	7.6%	8.5%	9.7%	4.8%	9.6%	10.3%	11.0%
WCR / Sales	1.7%	2.2%	1.9%	0.8%	5.6%	9.4%	19.3%	12.8%	16.7%	22.3%	23.3%	23.3%	22.7%
Capital employed (excl. gross goodwill) / Sales	7.2%	8.7%	7.8%	7.0%	11.3%	16.1%	25.3%	18.7%	22.3%	28.1%	29.5%	29.9%	29.3%
ROE	23.6%	28.3%	27.0%	21.5%	36.8%	33.0%	23.7%	23.4%	21.1%	22.2%	18.6%	17.6%	17.5%
Gearing	(27%)	(13%)	(37%)	(47%)	(18%)	16%	20%	18%	14%	23%	21%	17%	12%
EBITDA / Financial charges	NC	NC	NC	NC	NC	128.0x	21.5x	13.5x	13.2x	20.5x	20.5x	23.6x	31.9x
Adjusted financial debt / EBITDA	NC	NC	NC	NC	NC	0.3x	0.5x	0.5x	0.4x	0.7x	0.7x	0.6x	0.4x
ROCE, excl. gross goodwill	NS	NS	NS	NS	77.5%	52.7%	32.9%	45.3%	38.9%	32.6%	28.0%	27.9%	29.3%
ROCE, incl. gross goodwill	38.8%	37.7%	44.5%	58.4%	40.2%	26.8%	17.3%	20.8%	19.2%	18.1%	16.0%	16.2%	17.2%
WACC	8.3%	8.1%	8.2%	8.2%	7.3%	7.2%	7.4%	7.1%	9.0%	8.4%	9.3%	9.3%	9.3%
Average number of employees	5,816	6,092	6,385	6,516	7,584	10,611	22,055	24,415	25,256	27,067	28,020	28,720	29,970

Latest Model update : 17 Feb. 11   (a) Intangibles: EUR573.80m, or EUR3 per share.   (b) adjusted for capital gains/losses, impairment charges, exceptional restructuring charges, capitalized R&D, pension charge replaced by service cost

(c) adj.for capital gains losses, imp.charges, capitalized R&D, am. of intangibles from M&A, exceptional restructuring, (*) In listing currency, with div. reinvested, (**) also adjusted for am. of intangibles from M&A, or for am. of gwill for pre IFRS years