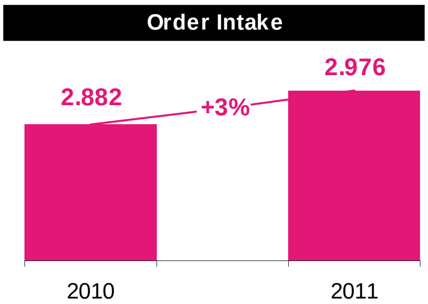
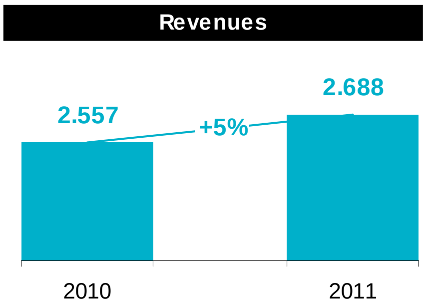
3. ANALYSIS OF REVENUES AND COMMERCIAL ACTIVITY

INDRA

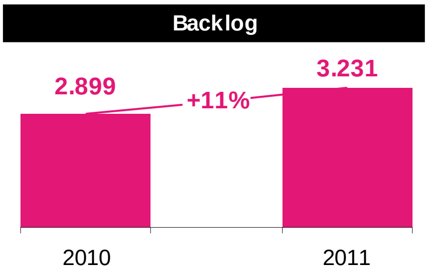
- Group's **order intake** during 2011 has posted a **3%** growth reaching €2,976m.

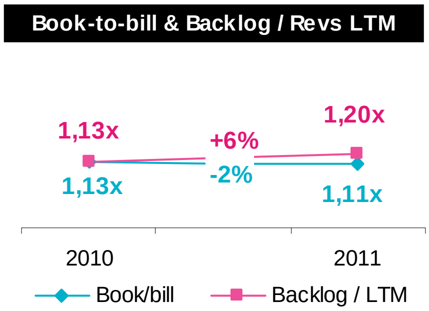
  This amount includes the positive impact from Galyleo and Politec. Excluding this effect, the underlying order intake for the period has grown 2%
- Total **revenues** registered a **5% growth**, standing at €2,688m, being the underlying growth, excluding the positive impact from Galyleo and Politec, of 3%





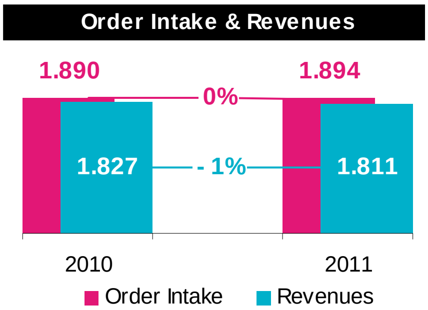
- **Order backlog grew** by **11**% representing, at the close of the year, **1.2x LTM revenues**, above the ratio reached at the end of 2010 (1.1x).
- **Book-to-bill ratio** (order intake / revenues of the period) by the year end stands at **1.11x,** similar level to that posted in 2010.

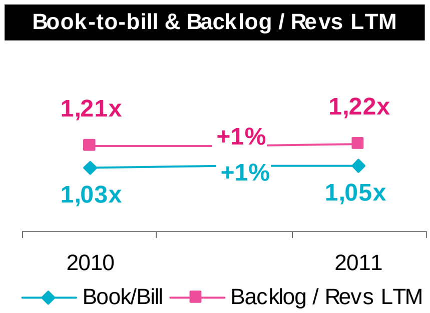




3.1 ANALYSIS BY SEGMENT

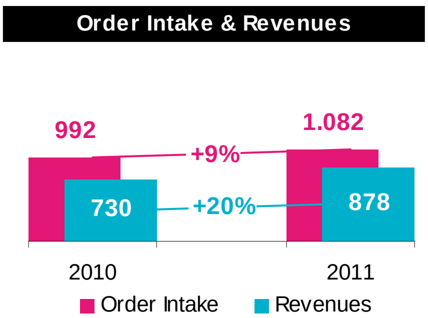
SOLUTIONS

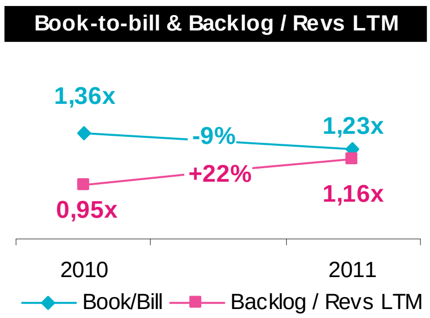




- **Revenues** have experienced a slight decreased **(-1%)** versus previous year, given that reported growth in Transport & Traffic and in Telecom & Media verticals have partially offset the decline in sale of Solutions registered in the Security & Defence vertical.
- It's worth mentioning that Galyleo and Politec acquisitions have no impact in the Solution's performance (neither at revenues nor at order intake level) as both companies are Services' oriented.
- **Order Intake** has reported a flat performance versus 2010 as well, mainly on the back of a lower activity in Security & Defence.
- **Order intake** during the period was **5% ahead** of **sales** (book-to-bill at 1.05x) slightly above of that registered by the end of 2010
- **Order backlog** continues growing (+0.4%) reaching €2,216m, with order backlog / LTM sales ratio at 1.22x, as well above 2010's order backlog.
- Along 2011, the company has maintained it **differentiation policy** on its **Solutions' offering base**. This has implied investments in all verticals, being worth highlighting the following:
    - Development of the Security & Defence offer base
    - Natural extension of the Solutions in rail transport
    - Development of smart grid Systems particularly related to utilities.
    - Large systems for the banking and insurances sectors.

SERVICES





- **Sales** increased by 20% during the period, reflecting not only the double digit organic growth, but also the positive impact from Galyleo and Politec. Excluding these, the underlying growth reaches 12%.
- Services' revenues, excluding the impact from acquisitions, have registered a moderate performance in the last quarter compared to that reported as of the

first nine months of the year due to two relevant contracts that started to be executed in the fourth quarter of 2010 in the Telecom & Media vertical, already commented in previous result's reports.

- **Order intake grew** by **9%** in the year to €1,082m (4% excluding acquisitions) and more than 20% ahead of sales, therefore setting the **book-to-bill ratio** (order intake / revenues) at **1,23x**. Concentration of suppliers' trend in large clients has allowed the company to renew multiannual Services contracts in almost all verticals.
- **Order backlog** shows a strong **growth** of **47%** to €1,015m, having posted a significant growth (30%) excluding acquisitions.
- **Order book / LTM** sales ratio reached 1,16x, registering a 22% growth.
- It's particularly remarkable the order intake growth reported in Telecom & Media and Public Administrations & Healthcare, verticals with relative Services' weight above the average of the company.

3.2 ANALYSIS BY VERTICAL

REVENUES	2011 (€M)	2010 (€M)	Variation €M	Variation %
Telecom & Media	396.8	321.3	75.5	24
Energy & Industry	407.8	362.7	45.1	12
PPAA & Healthcare	390.5	356.6	33.9	9 (*)
Transport & Traffic	597.2	554.8	42.4	8
Financial Services	386.4	367.7	18.7	5
Security & Defence	509.8	593.9	(84.1)	(14)
TOTAL	**2,688.5**	**2,557.0**	**131.5**	**5**

(*) Public Administrations & Healthcare, excluding balloting projects, falls by 3%.

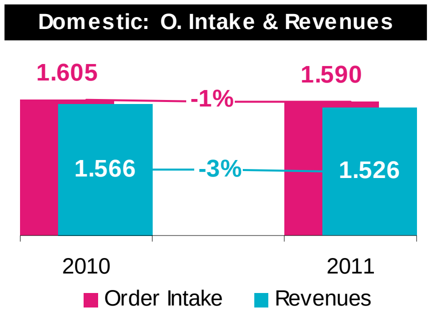
- **Telecom & Media** posted an organic growth of 22% that rises up to 24% after including Galyleo and Politec results.
  - During the period, Indra has reinforced its presence on its main clients, having renewed relevant multiannual application management contracts, that provides mid-term stability to the vertical.
  - The flat performance reported in the last quarter of the year, as preannounced in previous results, is the result of the ramp up of outsourcing activities and projects in the fourth quarter of 2010 that have produced relevant revenues' growth during the first three quarters of 2011.
- **Energy & Industry** reached a 12% growth with positive organic performance, above the initial expectations of the company, helped by the positive impact of Galyleo and Politec which have relevant presence in this vertical.
  - Domestic revenues posted positive growth, after the good performance of outsourcing activities in the utilities sector.
  - International growth is supported by awarded contracts in the oil sector (in Peru and Colombia) and in the water management segment (Peru) amongst others.
  - Indra continues strengthening its energy Solutions backlog, particularly those related to smart grid distribution systems, a high potential segment in the mid term. As well, the company expects to leverage its know how in oil Solutions real time applications.
- **Public Administrations & Healthcare** totalled a 9% growth (growing 4% excluding acquisitions), supported by the high activity registered in the balloting business both international (Colombia and Argentina) and domestic. Excluding these projects, revenues would have posted a 3% decline, mainly due to the weak domestic market demand.
  - International markets have reported a positive growth for the year, particularly in the second half of the year, on the back of relevant outsourcing contracts in Latam, mainly in the tax and justice fields.
  - At the same time, the company has started the execution of a relevant healthcare contract in Bahrain, a project which the company expects will strength its healthcare business presence in the Middle East, complementing its positive outlook in the Latam market.
- **Transport & Traffic** reaches an 8% growth in the period, becoming the vertical with higher relative weight of revenues in the company. Its worth highlighting:
  - The international market performance, which posted a double digit growth, increasing its relative revenues weight in the vertical to more than 50%. Air Traffic Management business continues posting sustainable growth in the international arena.

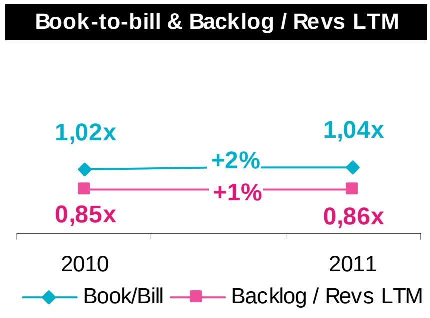
- As well in the international area, its important to mention the awarded contract in Saud Arabia to a Spanish consortium on which Indra participates as supplier of different systems (control centres, communications, ticketing, management systems, etc) and that will be put in force in 2012, being reflected in the order intake of such period.
- The importance of this contract will allow the company to increase its presence in the railway sector, on which Indra continues the development of advanced Solutions, particularly in the signalling field.
- Indra expects to opt for some important commercial opportunities in the mid term on international markets, both in high speed and in conventional railways.
- Domestic performance shows a small weakness on an annual basis, regardless the good performance in the last quarter of the year. Growth coming from the air, rail or sea transport, via clients financed by their own or by the central government has partially offset the activity decline coming from public entities linked to regional administrations.

- **Financial Services** reports a 5% growth in the period (1% excluding the acquisition's impact) helped out by the activities coming from Galyleo and Politec, in a general context of cost control and moderated investments from clients**.**
    - Despite this environment, during 2011, Indra has increased its presence in the big financial institutions, both in the banking and in the insurance sectors, leveraging on its ability to offer outsourcing services in the application and process management businesses.
  - In these areas, Indra has not only managed to renew multiannual projects, but it has also increased its clients' base, both in the domestic and in the International markets.
  - Concentration in the banking system has speed up and this will, eventually, allow Indra to lever its position and offering in the sector. Indra's position has been reinforced along the year on the back of the agreement reached with a financial entity for a jointly operation of Treasury and capital markets departments.
  - International markets, and Latam in particular, continues registering good pace of growth, which it's expected to be consolidated thanks to Politec's position in the Brazilian financial services market.
- **Security & Defence** has reported a 14% decline on its 2011 revenues, in line with Indra's expectations.
  - The negative performance totalled in the domestic market continues showing the difficult domestic budgetary environment which it's not expected to revert in the short term.
  - However, budget's cuts suffered in the Ministry of Defence in the previous years, and already reflected in Indra's domestic activity, drives the company to expect that 2012 negative performance will be moderate compared to that reported in 2011.
  - In the international segment, it's worth highlighting the slowdown of the annual activity at the Eurofighter programme, which is partially compensated through an extension of its lifespan. It's expected that the adjustment on this programme ends in 2012, reaching thereafter a stable volume of activity.

3.3. ANALYSIS BY GEOGRAPHY

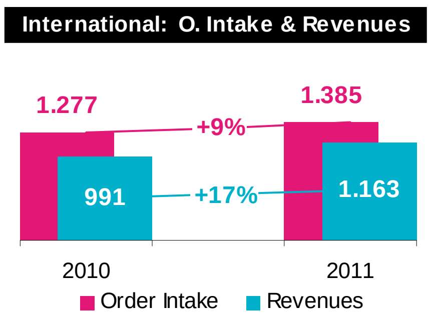
Domestic market:

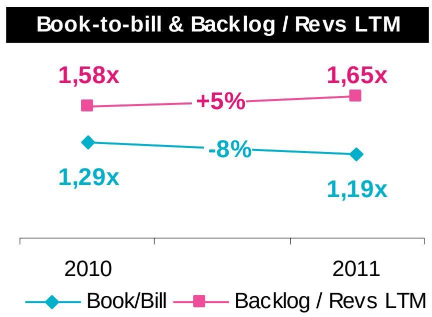




- **Revenues** decreased by 3% versus 2010, reaching €1,526m, in line with expectations.
- Telecom & Media and Energy & Industry showed the strongest revenue growth, while those markets with a higher component of institutional demand (Security & Defense, Transport & Traffic and Public Administrations) have registered a decrease in revenues.
- **Order intake decreased by 1%** (showing a worse performance markets with institutional demand). Despite this slight decrease in order intake, **book-to-bill** in 2011 exceed 1.0x **(1.04x),** reaching a similar level than the one in 2010.
- **Backlog / LTM** ratio reached 0.86x , same level as In 2010
- Indra's domestic backlog stability at the end of 2011 is one of the main indicators that allow anticipating that, despite domestic sales will probably decline in 2012, this slowdown will be moderate.

International market:

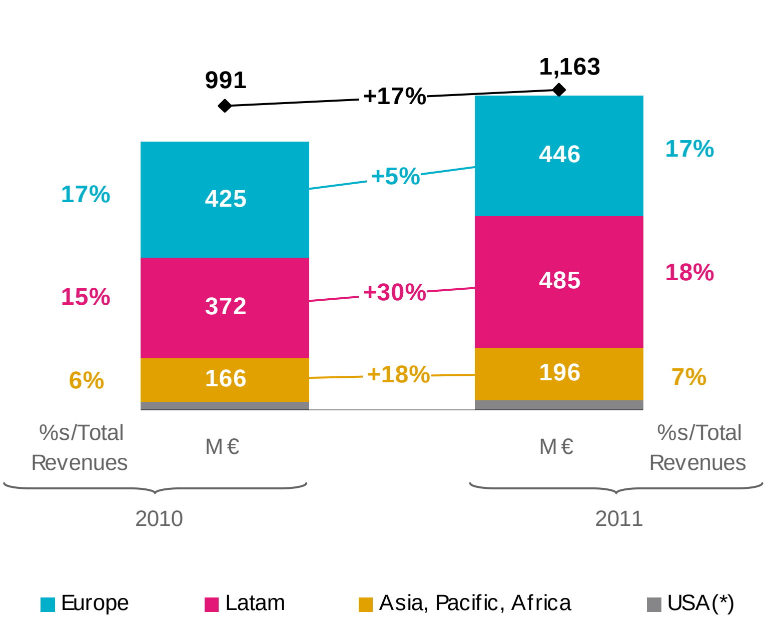




- The international market registered a **growth** in **sales** of 17% versus 2010, helped by the contribution of Galyleo and Politec.
- Excluding this contribution, revenues in international markets increased by 11%, slightly above the company's expectations announced at the beginning of the year.
- Considering that Galyleo and Politec will consolidate 12 months in 2012 (versus 6 and 3 months respectively in 2011), international markets will represent in 2012 more than 50% of the group total revenues
- **Order intake** has reached €1,385m in 2011**, increasing 9%** versus 2010 (excluding acquisitions, growth reached 5%). This figure is almost 20% above international revenues (**book-to-bill of 1.19x),** allowing for a significant increase of international order backlog (even excluding Galyleo and Politec acquisitions).

- Order backlog represents 1.65x international sales, posting an increase of 5% versus 2010 level.
- It should be highlighted that this order backlog does not include some of the relevant international contracts awarded at the end of 2011, such as the high speed train La Meca-Medina in Saudi Arabia, since this contract will be put in force during 2012.
- **Latin America** continues to show a positive trend, with **30% growth** in revenues (sales increased 20% without Politec):
    - Brazil, Argentina, Colombia and Peru have maintained a positive trend along the year, with rates of growth above the average of the region.
    - During 2011 Indra has reinforced its presence in Brazil, not only through organic growth but also through the critical mass provided by the acquisition of Politec. Politec consolidates since October 1st.
- In **Europe**, revenues posted a **5% growth**. This increase includes the impact of:
    - The slowdown in the production of the Eurofighter programme anticipated in previous reports, which negatively affect growth in the European market.
    - Galyleo's sales contribution as the company consolidates globally since July 1st.Excluding this acquisition, sales in the European market would have remained flat.
- Lastly, the **Asia Pacific** and **Africa's** revenues have posted a **18%** rate of growth in 2011:
    - Commercial efforts in this area is one of Indra's strategic priorities
    - During 2011 Indra has opened subsidiaries in several countries, reinforcing its commercial presence In the area

Geographical Breakdown International 2011 vs 2010



* USA: 2010: €28m; 1% /total revenues
2011: €23m (+24%); 1% /total revenues

4. ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Income statement

- **Net operating profit** (EBIT) reached €268m, 6% ahead of the figure reported in the same period of the previous year.

- No extraordinary costs have been accounted this year, compared to €33.4m registered in 2010. Adjusted by the above mentioned extraordinary costs, recurrent EBIT decreased by 6%.

- **Net operating margin** (EBIT/Sales) stood at 10%, in line with the guidance announced by the company, including the dilution effect from the lower profitability of the acquired companies, as well as the acquisition and integration costs. Excluding these impacts, Operating Margin reached 10.5%.

  Reported Operating margin is 1.2pp below the Recurrent Operating Margin (excluding extraordinary costs) announced in 2010.

- **Contribution Margin** declined, in line with the company's expectations, by 1.0pp to 17.3%. This dilution includes the impact from the acquired companies (Galyleo & Politec) which have registered contribution margins below Indra standalone.

- During FY11, margin pressure factors have remained in place:

  - pricing pressure, regardless it is not been equally spread out along the different geographies and markets on which Indra operates;
  - Increasing revenue growth in the Services segment relative to that registered in Solutions.
  - the decrease contribution margin in the Services segment, by 0.9pp, and the one of Solutions, by 0.8pp, to 14.4% and 18.7% respectively.
  - the commercial effort implied in the international expansion process, not only derived from the tendering process but also from the setting up costs of the different subsidiaries.

- **Overheads** account for 7.3% of revenues, representing an increase of 8% vs. last year. This amount includes the impact derived from the closing of the acquisitions.

- **Net financial expenses** reached €37.7m compared to €19.1m in 2010. The increase, derives not only from a higher average net debt and higher cost, but also from the accounting of the hyperinflation registered in Venezuela and from the accounting of long term R&D zero coupon loans.

- **Tax rate** stood at 22%, slightly ahead of that registered during 2010 (20%).

- **Net profit** reached €181m (growing to €191m excluding the impact from the acquisitions), which represents a 4% decline vs. 2010.

Balance Sheet and **Cash Flow Statement**

- **Net working capital** reached €756m, equivalent to 98 days of revenues including the positive impact from the acquisitions. Excluding the acquisitions, net working capital would have reached 100 days of revenues. This level of DOS (Days of Sales) is slightly below the targeted 108 DoS announced in November mainly due to some unexpected revenues' collection by year end.

- During the year, total tangible and intangible investments (net of capital grants) have sum up €111m, including:
    - €42m investments in tangible expenditures, including non recurring items, and
    - €69m in intangible investments (net of capital grants), including €20m from FY10.
- Payments from **acquisitions**, reached a total of €45M, of which more than 40% belong to transactions done during the previous year.
- Ordinary **dividend** payment on 2010 results reached €111m.
- Net investments in **treasury stock** totalled €3.6m in the year, closing the period with a 0.81% of total outstanding shares in the company.
- **Net debt** position stood at €514m by the end of the year, equivalent to 1.5x 2011 EBITDA, versus €275m reported in 2010.

Human Resources

- **Total workforce** at the close of the year 2011, stood at 35,730 employees (of which 41% is located in international markets), 25% up on 2010.
    - Galyleo and Politec acquisitions implied more than 5,000 new employees in Indra, representing more than 70% of the total workforce increase.
    - The main increase in absolute terms took place in **Latin America**, home to 35% of the total workforce, after the acquisitions of Politec (80% of the increase) and the organic growth of Indra's activity in the area (20% of the rest of growth).
    - International workforce in emerging markets accounts already for 37% of total workforce.
    - Domestic workforce in Spain has increased by 5%, reflecting the increase of activity in the Services segment.
- **Average workforce** grew by 14% versus 2010 to 31,077 employees.