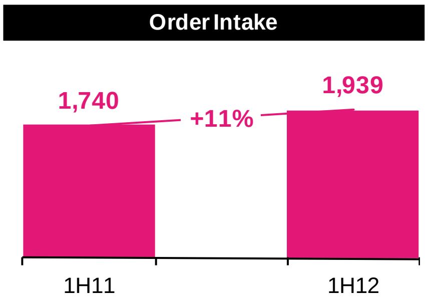
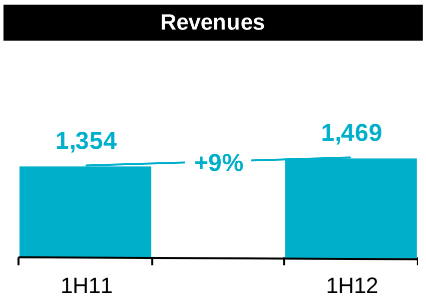
3. ANALYSIS OF REVENUES AND COMMERCIAL ACTIVITY

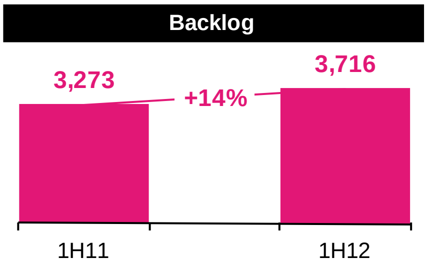
INDRA

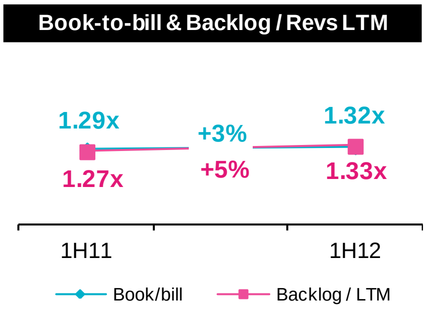
- Group's **order intake** for the first six months of the year has **increased 11%** compared to the same period of the previous year, reaching €1,939m.
- This amount includes the positive impact from Galyleo, Politec and Indra Navia's integration. Excluding this effect, order intake for the period would have grown 1%.
- Total **revenues** registered a **9% growth** standing at €1,469m. Excluding the impact of acquisitions, sales remained nearly flat.





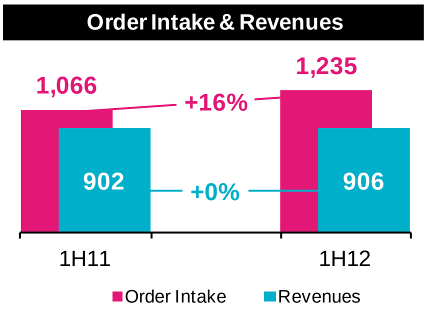
- **Order backlog grew** by **14**% representing, at the close of the semester, **1.33x LTM revenues**, 5% above the ratio reached at the end of same period of the previous year (1.27x).
- **Book-to-bill ratio** (order intake / revenues of the period) stands at **1.32x** at the end of the semester**,** 3% above the ratio reached at the end of the same period in 2011.

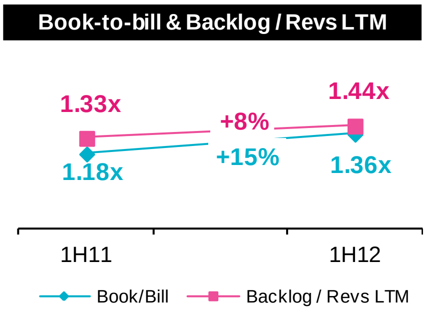




3.1 ANALYSIS BY SEGMENT

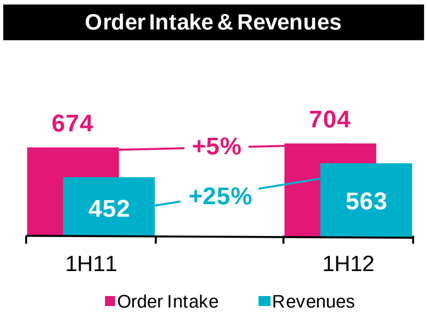
SOLUTIONS

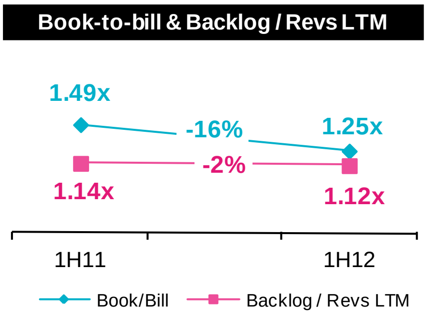




- **Revenues** have posted a **flat performance** versus the first semester of the previous year. Transport & Traffic, Security & Defence, Telecom & Media and Energy & Industry verticals have shown positive performance having offset the decline registered in PPAA & Healthcare and Financial Services verticals.
- **Order Intake** has registered a **16% growth**, a figure which is **36% ahead** of **sales** (book-to-bill at 1,36x, above the ratio registered in the first semester of previous year) with a positive performance mainly in emerging markets and especially in the Asia Pacific and Africa areas.
- **Order backlog** continues **growing** (+11%) reaching €2,610m. Order backlog / LTM sales ratio reaches 1.44x, above 2011's level.
- During the first half of the year the company has continued its investment program in the **development** of its **Solutions' offering.** The investment process of the company continues to be focused on those areas considered of strategic importance, both in terms of current and future market potential, and in terms of its relevance to the company's goal to remain as a leading supplier of proprietary solutions in the field of intelligent networks - specially the electrics-, in Indra's offering in air and rail transport, as well as in specific areas of Security & Defence.

SERVICES





- **Sales increased** by **25%** during the first six months of the year reaching €563m.
- **Order intake grew by 5%** versus same period of the previous year in which several multiannual projects of significant size, mainly in the Financial Services and Telecom & Media verticals, were signed. In recent months the company has renewed a number of relevant contracts in the Services segment, mainly in Latam market.
- **Book-to-bill ratio** (order intake / revenues) is maintained at a significant level of **1.25x.**
- **Order backlog** shows an **increase** of **20%**. **Order book / LTM** sales ratio stood at 1,12x.
- **Services** have represented **38%** of the **total revenues**, in line with the expectations of the company.

3.2 ANALYSIS BY VERTICAL

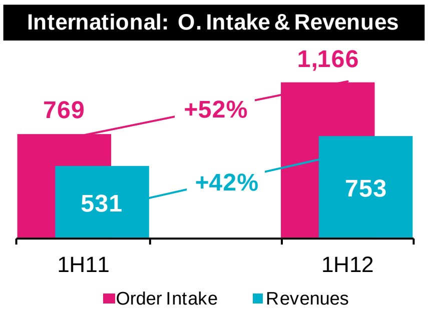
REVENUES	1S12 (€M)	1S11 (€M)	Variation €M	Variation %	
Energy & Industry	234.0	188.8	45.2	24	
Financial Services	238.0	207.7	30.4	15	
PPAA & Healthcare	216.1	195.1	21.1	11	(*)
Transport & Traffic	320.1	305.2	14.9	5	
Telecom & Media	215.0	211.2	3.8	2	
Security & Defence	245.4	245.7	(0.3)	(0)	
TOTAL	**1,468.7**	**1,353.6**	**115.1**	**9**	

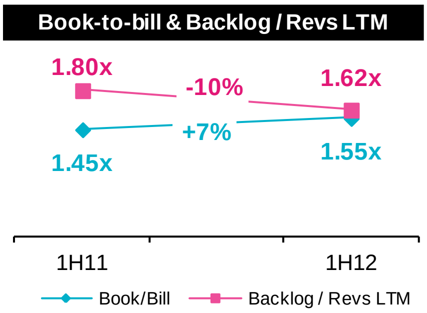
(*) Public Administrations & Healthcare, excluding balloting projects, increases by 11%.

- **Energy & Industry** has reached a 24% increase with positive performance in the international market and slightly positive in the domestic one. Latam continues to be the growth driver, while the company continues to grow in other geographical areas such as Eastern Europe, making an important effort in its expansion in Asia Pacific, Middle East and Africa.
- **Financial Services** shows a 15% growth in the semester in spite of the general trend, in the domestic market, of costs control and budget restrictions by clients, resulting in a reduction of sales in that market. In the international arena, the company continues to seize the opportunities in Latam - in the financial and in the insurance markets - while continuing to expand its presence in the U.S. subsidiaries of the major financial and insurance Spanish institutions.
- **Public Administrations & Healthcare** has increased by 11% (at the same rate excluding balloting) on the back of the significant growth of international markets – both in PPAA & Healthcare and Balloting –, which compensates the weakness of domestic market. In the domestic market, mainly in the regional administrations, new practices in concentrating IT are slowly emerging in order to improve the efficiency of services. Indra expects to take advantage of this new trend. This, together with important commercial opportunities in Asia Pacific, Middle East and Africa could improve the performance of this vertical market in the second half of the year.
- **Transport & Traffic** has reached 5% growth during the semester, reversing the tendency of the first months of the year, as mentioned in the previous results report. This increase comes on the back of the positive performance of the air traffic management segment, where the consolidation of the recently acquired Indra Navia is contributing to expand Indra's commercial offering. Domestic market shows a decreasing activity due to the weakness of the infrastructure sector.
- **Telecom & Media** has registered a 2% growth during the semester, growth that has been conditioned by the significant increase in activity during the same period of the last two years (+12% and +35% for 2010 and 2011 respectively). In spite of this, international markets, especially Latam (where Brazil, Mexico and Chile show rates of growth between 20% and 40%) maintain a positive performance. In the domestic market, the volume scope of some contracts has been reduced, having a negative impact in the short term performance of this market.
- **Security & Defence's** level of revenues has remained flat versus the same period of the previous year– with growth in international markets compensating the weakness in domestic one-, decreasing the rate of decline registered last year. The company expects a slight deterioration of this performance by year end.

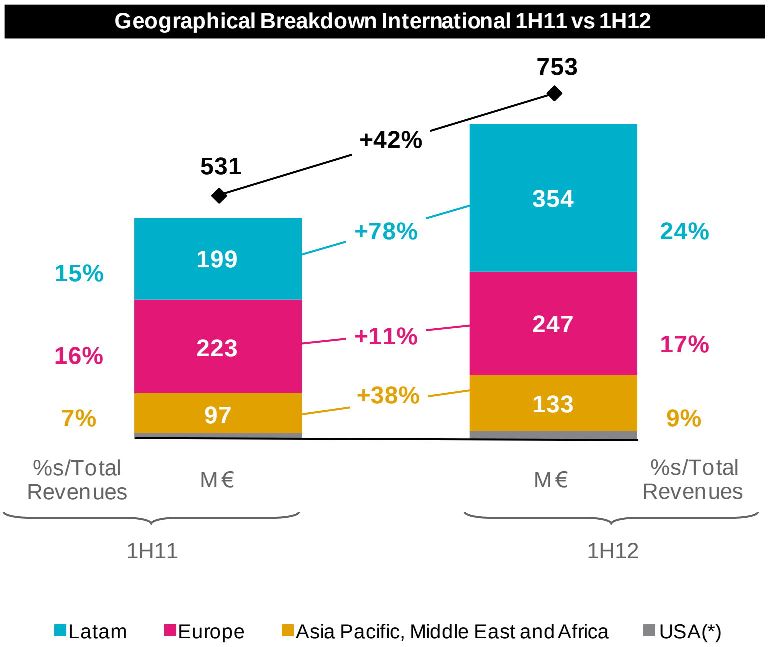
3.3. ANALYSIS BY GEOGRAPHY

International market:



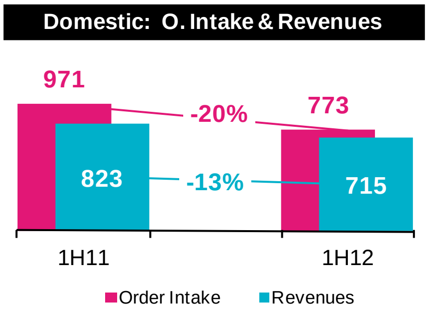


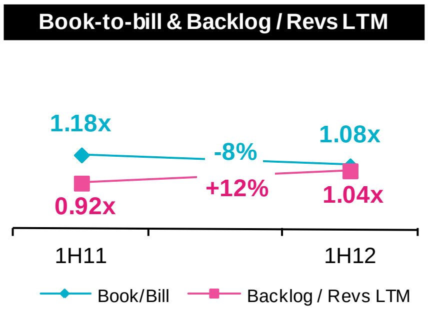
- **Revenues** in the international markets have reached €753m**,** showing growth of **42%** compared to the first half of the previous year and representing 51% of the company sales. Indra expects international markets to represent by year-end around 55% of total revenues.
- **Order intake** during the period grew by **52%** to €1,166m, being 55% ahead of sales (international **book-to-bill** at **1.55x**), allowing a significant increase in the international backlog.
- **Backlog / LTM** ratio at the end of the period represents **1.6x** the international **sales**.
- **Latin America** shows a strong positive trend, with a **78%** growth rate. Brazil, Mexico, Argentina, Colombia, Peru and Chile continue to post significant growth during the semester.
- **European market** has grown **11%** during the period, highlighting the performance of the French and English market, as well as the Italian one (favoured by the contribution of Galyleo).
- Lastly, **Asia Pacific, Middle East and Africa's** revenues have posted a **38%** increase in 1H12, accelerating its rate of growth versus the beginning of the year, as was anticipated in Q1 12 report. This area presents significant commercial opportunities.



* USA: 1S12: €19.8m (+63%)

Domestic market:





- **Revenues** have reached €715m, having **decreased** by **13%** compared to the same period in 2011.
- The weakness of the domestic market is reflected in the decreasing level of activity in all verticals, with the exception of Energy & Industry which shows a slightly positive behaviour.
- **Order intake decreased by 20%** being remarkable the positive performance of the Energy & Industry and Defence verticals. Despite this decrease in order intake, **book-to-bill** stands at1.08x for the period.
- **Backlog/LTM** ratio during the period reached **1.04x,** ahead of the figure of the same period in 2011.

4. ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Income statement

- **Recurrent operating profit** (EBIT before extraordinary costs) reached €123m, 13% below the figure reported in the same period of the previous year.

- **Recurrent operating margin** (EBIT before extraordinary costs/Sales) stood at 8.4%, 2,1pp below the operating margin of the first semester of 2011. The company expects to maintain this figure during the second half of the year.

- In the first semester, Indra has incurred in €20m of extraordinary costs, not having registered extraordinary costs during the same period last year. After this extraordinary expenses, **Operating profit (EBIT)** reached €130m.

- **Contribution margin** down 1.4pp to 15.8%, reflecting pricing pressure, higher revenue growth in the Services segment versus Solutions, commercial efforts done by the company for its international expansion and the dilutive impact of the acquisitions of Politec and Galyleo, that currently register lower contribution margins than that of the company.

  - Contribution Margin in Solutions decreased 0.8 pp to 18%.

  - Contribution Margin in Services decreased 1.8 pp to 12.3%.

- **Overheads** account for 7.4% of revenues vs. 7.2% in the same period of the previous year.

- **Net financial expenses** reached €26m compared to €10m in the first semester of 2011. The increase derives from higher average net debt position –included the debt effect from the acquisitions-, its average cost, the accounting effect of long term R&D loans (zero interest rate cost) and the accounted interests expenses from the financial investments made with deferred payment – both with interest costs accounted for, but no cash out-.

- **Tax rate** of the semester stood at 21%, similar than the one registered during the same period of the previous year.

- **Recurrent net profit** reached €77m (€61m including the impact from extraordinary costs), and decreased 20% vs. the same period in 2011.

Balance Sheet and **Cash Flow Statement**

- **Net working capital** reached €815m, equivalent to 101 days of revenues, similar to the 100 days registered at the end of the first semester last year. The company maintains its expectations of reaching 110 days of revenues by year end.

- During the semester, total **tangible and intangible investments** (net of capital grants) have sum up €49m:

  - €15m in tangible assets, vs. €23m registered during the same period of the previous year

  - €34m in intangible assets, similar figure than that of the same period of 2011

- Payments for **financial investments** amounted to 32€, net of proceeds from divestments, mainly in Administradora de Archivos (as mentioned in Q1 12's report), and include the acquisition of Indra Navia for €38m and other smaller deferred payments from other acquisitions.
- Investment in **Treasury stock** totalled €21m in the period. At the end of the semester the company held 2.1% of total outstanding shares.
- **Net debt** position stood at €587m as of June 30th, 2012, equivalent to 1.98x LTM recurrent EBITDA, versus €549m reported at the end of first quarter of the year.

Human Resources

- At the end of first semester 2012, **total workforce** stood at 36,452 employees, 24% higher than in the first semester of the previous year, remaining almost flat compared to the end of 2011 (+2%). Of this limited increase from year end, around 213 employees come from the Indra Navia acquisition.
- **International workforce** (around 15,800 professionals) represents 43% of the total workforce:
  - Latin America accounts for more than 13,000 professionals and is the fastest growing region -reflecting the Politec acquisition-.
  - Asia Pacific, Middle East and Africa count with over 950 professionals, registering a 36% growth.
- **Final workforce** in **Spain** decreased by 3% versus the final workforce at the end of last year, and reaches 20,655 employees. This decrease should be analysed taking into consideration:
  - The negative performance of revenues in the domestic market is due to pricing pressure rather than to a decrease in the amount of activity. This implies a higher need of workforce to satisfy that volume of activity.
  - International projects in the Solutions segment that are developed in a large extend from Spain have increased compared to the first semester of 2011, also impacting on the need of professionals located in Spain.