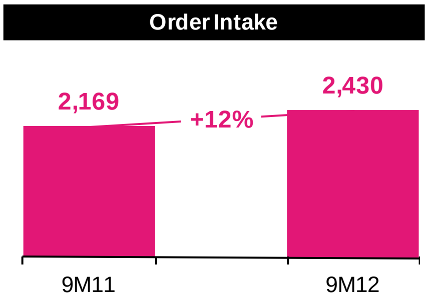
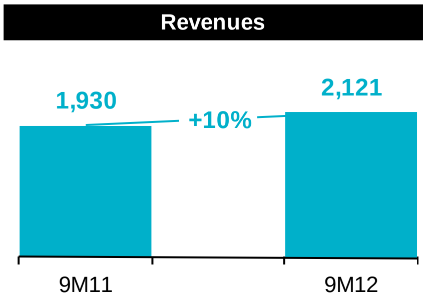
3. ANALYSIS OF REVENUES AND COMMERCIAL ACTIVITY

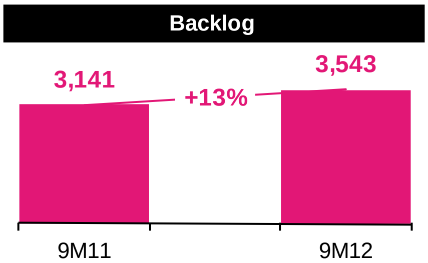
INDRA

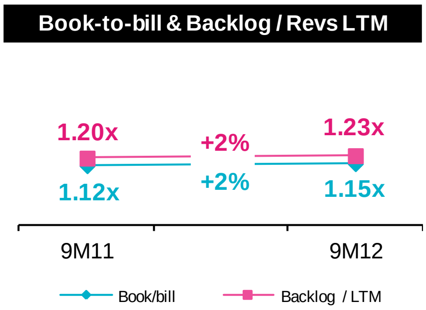
- Group's **order intake** for the first nine months of the year has **increased 12%** compared to the same period of the previous year, reaching €2,430m.
- This amount includes the positive impact from Galyleo, Politec and Indra Navia's integration. Excluding this effect, order intake for the period would have grown 2%.
- Total **revenues** registered a **10% growth** standing at €2,121m. Excluding the impact of acquisitions, sales remained flat.





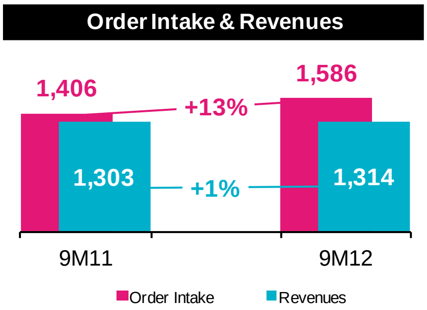
- **Order backlog grew** by **13**% representing, at the close of the third quarter, **1.23x LTM revenues**, 2% above the ratio reached at the end of same period of the previous year (1.20x).
- **Book-to-bill ratio** (order intake / revenues of the period) stands at **1.15x** at the end of the third quarter**,** 2% above the ratio reached at the end of the same period in 2011.

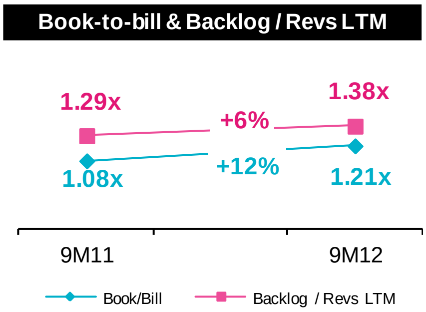




3.1 ANALYSIS BY SEGMENT

SOLUTIONS

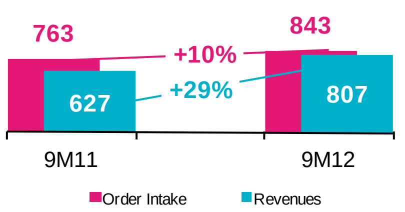




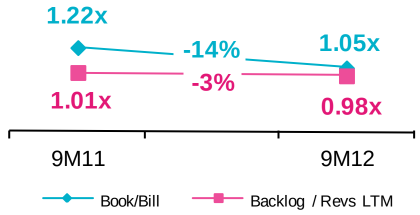
- **Revenues** have posted a **flat performance (+1%)** versus the first nine months of the previous year. Transport & Traffic, PPAA & Healthcare and Energy & Industry verticals have shown positive performance (flat in Energy & Industry) having offset the decline registered in Security & Defence, Telecom & Media and Financial Services.
- **Order Intake** has registered a **13% growth**, a figure which is **21% ahead** of **sales** (book-to-bill at 1.21x, above the ratio registered in the first nine months of the previous year) with a positive performance mainly in emerging markets and especially in the Asia Pacific and Africa areas, as mentioned in 1H 12's report.
- **Order backlog** continues **growing** (+8%) reaching €2,507m. Order backlog / LTM sales ratio reached 1.38x, above 2011's level.
- The company's strategy has remained unchanged in the **development** of its **Solutions' offering** and 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

Order Intake & Revenues



Book-to-bill & Backlog / Revs LTM



- **Sales increased** by **29%** during the first nine months of the year reaching €807m, with a positive performance in the international area, which compensates the weakness of domestic market.
- **Order intake grew by 10%** versus same period of the previous year. This growth takes place despite the fact that several multiannual projects of significant size were signed during the same period of previous year. The international market has registered positive growth rates, which compensates, similarly to that reported in sales, a lower activity in domestic market.
- Oder in take during the period was 5% above sales **(book-to-bill ratio**) at **1.05x.**
- **Order backlog** shows an **increase** of **26%** and stands at a similar level of LTM revenues.
- **Services** have represented **38%** of the **total revenues**, in line with the expectations of the company.

3.2 ANALYSIS BY VERTICAL

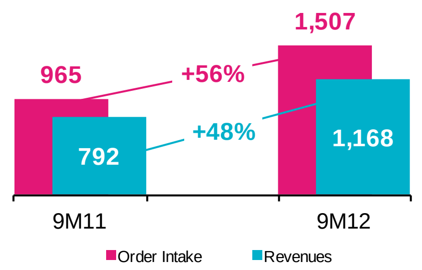
REVENUES	9M12 (€M)	9M11 (€M)	Variation €M	Variation %
PPAA & Healthcare	377.7	277.6	100.1	36
Energy & Industry	335.0	286.1	49.0	17
Financial Services	341.2	294.5	46.7	16
Transport & Traffic	456.3	435.1	21.2	5
Security & Defence	324.1	331.2	(7.1)	(2)
Telecom & Media	286.5	305.1	(18.6)	(6)
TOTAL	**2,120.8**	**1,929.6**	**191.2**	**10**

- **Public Administrations & Healthcare** shows a significant growth (+36%) on the back of the good performance in the international market, where the order intake accomplished both in 2011 and during this year has boosted sales during the first nine months of the period, having more than offset the double digit decrease registered in the domestic market. By regions, it is worth highlighting the performance in Latam and Middle East and Africa, where relevant projects are being developed in Healthcare, Balloting and Taxes. In Spain, although order intake has also decreased, Indra has contracted some relevant projects with some of the clients that are starting to implement new commercial/relationship models based on improving the efficiency of processes.
- **Energy & Industry** has posted a 17% increase with a positive performance in the international market (Latam continues to be the growth driver) and slightly negative in the domestic one. Indra continues to develop its own technology solutions in the energy field, allowing the company to expand into adjacent areas, such as infrastructure and services management in the oil and water management systems' field.
- **Financial Services** shows a 16% growth during the nine months period. In spite of the general trend of costs control and budget restrictions by clients, the level of revenues in the domestic market has remained flat, on the back of various IT integration projects within the Spanish banking industry concentration process. In the international area, the company continues to consolidate its presence in Latam – with a relevant Politec contribution – as well as to expand its incipient activity in EEUU.
- **Transport & Traffic** has reached 5% growth during the first nine months of the year, expecting a higher growth at the end of the year as the contract of the high speed train in Arabia Saudi is put into operation and Indra's commercial offering in air traffic industry increases, supported by the recently acquired Indra Navia. Domestic market is still conditioned by the general weakness of the infrastructure sector, which registers negative rates of growth.
- **Security & Defence's** level of revenues has declined 2% during the period, decreasing in the domestic market and increasing in the international one. As announced in previous results reports, this vertical market is expected to post a higher rate of decline for the full year than the one registered at the end of the third quarter, although not reaching double digit rate.
- **Telecom & Media** has registered during the first nine months of the year a decline of 6%, conditioned, as expected, by the significant increase of the activity during the same period of the last two years and the weakness of the domestic market, where the volume scope of some relevant contracts has been reduced. However, the international market –especially in Latam- has had a good performance during the period.

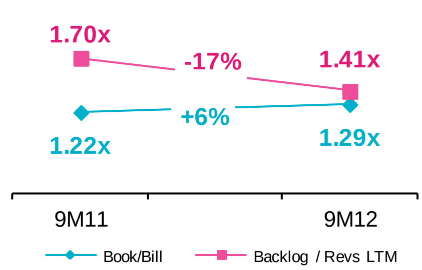
3.3. ANALYSIS BY GEOGRAPHY

International market:

International: O. Intake & Revenues

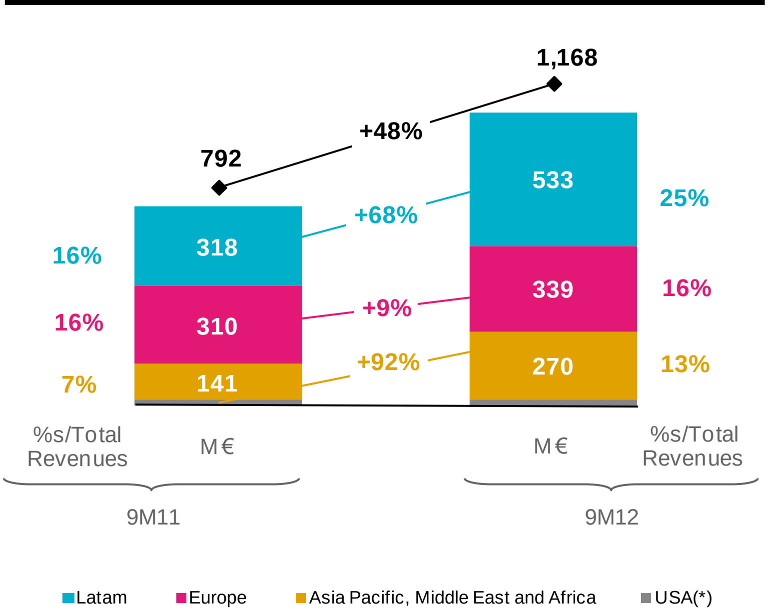


Book-to-bill & Backlog / Revs LTM



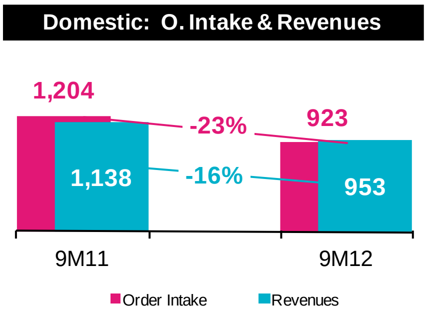
- **Revenues** in the international markets have reached €1,168m**,** showing a rate of growth of **48%** compared to the first nine months of the previous year and representing 55% of the company sales. Indra expects international markets to represent by year-end an even higher percentage of total revenues.
- **Order intake** during the period grew by **56%** to €1,507m, being 29% ahead of sales (international **book-to-bill** at **1.29x**), allowing a significant increase in the international backlog.
- **Backlog / LTM** ratio at the end of the period represents **1.4x** the international **LTM sales**.
- **Latin America** shows a strong positive trend, with a **68%** increase. Brazil, Mexico, Argentina, Colombia, Peru and Chile continue to post significant growth during the quarter, while Indra consolidates its presence in other countries such as Panama.
- **European market** has grown **9%** during the period, highlighting the performance of the French and English market, as well as the Italian one (with a good performance of Galyleo).
- Lastly, **Asia Pacific, Middle East and Africa's** revenues have posted a **92%** increase in 9M12, driven by the positive performance of PPAA & Healthcare.

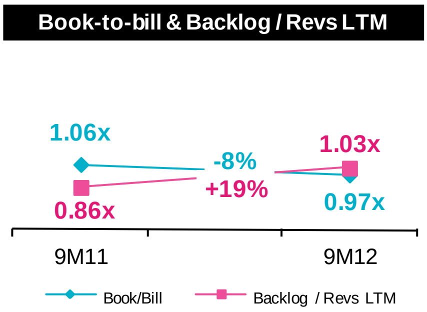
Geographical Breakdown International 9M11 vs 9M12



* USA: 9M12: €26m (+13%)

Domestic market:





- **Revenues** have reached €953m, having **decreased** by **16%** compared to the same period in 2011.
- The weakness of the domestic market, anticipated in previous reports, is reflected in the decreasing level of activity in all verticals.
- However, for the rest of the year, the company does not expect a higher rate of decline of the domestic activity than the one registered in the third quarter.
- **Order intake decreased by 23%** being remarkable the positive performance of the Defence market, which registers a positive rate of growth over the same period of the previous year, and the Energy & Industry vertical, which remains flat. Despite this decrease in order intake, **book-to-bill** stands at 0.97x for the period.
- **Backlog/LTM** ratio during the period reached **1.03x,** 19% above 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 €179m, 11% below the figure reported in the same period of the previous year.

- **Recurrent operating margin** (EBIT before extraordinary costs/Sales) stood at 8.5%, 2.0pp below the operating margin of the first nine months of 2011and in the middle point of the targeted range of between 8% and 9% for the full year.

- During the first nine months of the year, Indra has incurred in €27m of extraordinary costs, not having registered extraordinary costs during the same period last year. The company expects that in the last quarter of the year €3m additional extraordinary expenses will be accounted. After these extraordinary expenses, **Operating profit (EBIT)** reached €152m.

- **Contribution margin** down 1.8pp to 15.9%, reflecting pricing pressure, higher revenue growth in the Services segment versus Solutions and the commercial efforts done by the company for its international expansion.

  - Contribution Margin in Solutions decreased 1.1 pp to 18.2%.

  - Contribution Margin in Services decreased 2.2 pp to 12.2%.

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

- **Net financial expenses** reached €39m compared to €22m during the same period last year. The increase derives from the higher average debt position – including the debt 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 first nine months stood at 21%, similar than the one registered during the same period of the previous year.

- **Recurrent net profit** reached €115m (€93m including the impact from extraordinary costs), and decreased 21% vs. the same period in 2011.

Balance Sheet and **Cash Flow Statement**

- **Net working capital** reached €812m, equivalent to 105 days of revenues, slightly lower level than the 108 days registered at the end of September last year. The company maintains its expectations of reaching 110 days of revenues by year end.
- During the nine months, total **tangible and intangible investments** (net of capital grants) have sum up €63m:
  - €20m in tangible assets, vs. €33m registered during the same period of the previous year
  - €43m in intangible assets, lower figure than that of the same period of 2011 (€60m)

- Payments for **financial investments** amounted 51€, net of proceeds from divestments (mainly in Administradora de Archivos, as mentioned in 1Q 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 €8m in the period. At the end of the third quarter the company held 1.2% of total outstanding shares.
- **Net debt** position stood at €661m as of September 30th, 2012, equivalent to 2.3x LTM recurrent EBITDA, versus €587m reported at the end of first half of the year.

Human Resources

- At the end of the third quarter 2012, **total workforce** stood at 37,345 employees, 22% higher than the one in September 2011, having increased by only 5% compared to December 2011. Of this increase of 1,600 professionals from year end, around 223 employees come from the Indra Navia acquisition in the second quarter of the year, and the rest from the international market.
- **International workforce** (around 16,600 professionals) represents 45% of the total workforce:
  - Latin America accounts for more than 13,800 professionals and is the fastest growing region -reflecting the Politec acquisition-.
  - Asia Pacific, Middle East and Africa count with over 1,000 professionals, registering a 36% growth.
- **Final workforce** in **Spain** decreased by 2% versus the December 2011, and reaches 20,740 employees. This decrease should be analysed taking into consideration that:
  - The negative performance of revenues in the domestic market is due to pricing pressure rather than to a decrease in the volume 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 same period of 2011, also impacting on the need of professionals located in Spain.