1. INTRODUCTION

- The evolution of Indra's business in the first semester of the year is characterised by:
  - A slight improvement of the activity in Spain in the second quarter versus the first, which is expected to be confirmed in the second half of the year based on the improvement showed by the last macro indicators published.
  - The negative comparable basis in most of the currencies where Indra operates, especially in Latam (in which currency headwinds cut 18 points of growth)
- In this context, **revenues** reached €1.476m, **growing +5% in local currency** (and would have grown by +6% excluding the Services business divested in 2013 (1)). In reported terms (in euros) revenues have slightly declined (-1%), impacted mainly by the Latam currencies depreciation.
- **Revenues** performance by **geographic area** was the following:
  - Spain (39% of total): -9% reported
  - Latam (26% of total): +14% in local currency (-4% reported)
  - Europe & North America (21% of total): +11% in local currency (+10% reported)
  - AMEA (14% of total): +22% in local currency (+18% reported)

  Revenues are expected to decline in Spain for 2014. However, the rate of decline is expected to improve through the year, and thus the full year decline will be smaller than the one shown in the first semester.

  Despite macro backdrop and certain slowdown in the second quarter, Latam has maintained a relevant growth rate in local currency for the semester (+14%), which we believe is sustainable for the remaining of the year.

  Solid performance in AMEA, +22% in local currency, although it will not be as significant in the next quarters. As we mentioned in 1Q14 results, the activity in the area has been supported in the first semester by sizable projects in different markets in Middle East, which are now completed.
- **Solutions** (65% of total) revenues have increased by **+9% in local currency** (+4% in reported figures), thanks mainly to the positive performance in Europa and AMEA, and to a fewer extent in Latam.
- **Services** (35% of total) revenues have declined by **-2% in local currency** (-9% reported, being affected by the depreciation of the Latam currencies and disposals). During the second quarter, the company has been more selective regarding certain contracts which have been negatively affected by the current market situation, especially in Spain.
- The **vertical markets** of Public Administration & Healthcare (+25%) and Transport & Traffic (+10%) showed double digit revenue growth rate in local currency, being positive for Financial Services (+6%), and flattish for Security & Defence. The activity for Energy & Industry (-3%) and Telecom & Media (-13%) are impacted by the weak performance of the Spanish market, which is expected to improve during the second half of the year.

(1) The advanced management business of digital documentation in Spain and Mexico. Revenues in 2013 of this activity reached €19m. Order Intake totals €19m in 2013.

- **Order intake** is **12% above revenues,** in line with the first semester 2013. Order intake accelerates in Spain versus the first quarter (+3% in 1H14 vs -15% in 1H13). Order intake in the rest of the areas remains solid (especially in AMEA, with double digit growth rates).

  In absolute terms, order intake has increased by +6% in local currency, showing a modest decline of -1% in reporter terms (which would have been flat once adjusted by the divestment of the business mentioned above).

- **Order backlog** amounts to **€3.560m** (+2% in local currency, -1% reported) and represents 1,23x LTM revenues.

- **Recurrent EBIT** totals **€113m** (-4%) and **recurrent EBIT margin** reaches **7.7%**, slightly below (-0.2 pp) the first semester of last year. Profitability continues to be pressed in Spain in the context of a reduction in prices, mainly in Service, and the performance of the Latam markets is coming slower than expected, especially in Brazil.

- The plan to adequate costs and increase the efficiency of Indra's resources has continued in the second quarter, and amounts to **€12m** at the end of the semester, reflecting most of the expenses expected for 2014.

- **Recurrent net profit** (before extraordinary costs) grew +9%, mainly from lower financial costs. Net profit increased by +27%, mainly from lower extraordinary expenses.

- In line with the comments made in the previous earnings report, **Net working capital** (NWC) at the end of the semester stood at **112 days of equivalent sales** (DoS), a level above expectations, although the company contemplates that it will decrease at year end.

  Regarding net working capital, the following issues should be considered:

  - In average, over the last years, NWC at the end of the second quarter has been 6 DoS above the one at the end of the first quarter.

  - In the first quarter of the current year the regularization of the overdue debts from the regional Governments in Spain took place. From then, regional Governments have accumulated new delays, although the behaviour of some of them has improved. The company believes this trend will consolidate gradually over the next quarters (the central Government has already anticipated new actions in this regard).

  - The company had expected to collect in the second quarter from some projects, mainly two in Mexico already finished and certified and another two in Brasil in deployment and certification stage for a total of €40m. The company expects to collect such amount over the second half of the year.

  As it has been already mentioned in the first quarter earnings report, it is foreseen that the NWC improvement will concentrate in the last quarter of the year.

- **Net capex** (tangible and intangible) amounts to €28m, in line with expectations for the full year.

- **Net financial investments** amount to €13m, mainly due to the payment of several contingencies in Brazil, which are considered to be payments against the price for Politec. The final settlement for Politec is expected for the second half of the year.

- **Free cash flow [2]** during the period has reached -€3m vs flat in 1H13 (once adjusted for the impact of the divestment mentioned before [1]). In line with the performance of the net working capital, the improvement in the FCF will concentrate in the last quarter of the year.
- **Net debt** at the end of the semester reached **€652m** (€649m at the end of 1H13), a leverage level of 2.3x recurrent LTM EBITDA.

As proposed by the Board of Directors, the AGM that took place in June approved the payment of an **ordinary dividend of €0.34 per share** against 2013 results –equivalent to a 48% pay-out ratio and a dividend yield of 2.8% on the shares closing price for 2013 (€12.155)-. The dividend was paid early July.

EXPECTED PERFORMANCE FOR 2014

The expected evolution of the net working capital and the rest of the factors that determine the cash generation allows the company to believe it can reach the **target** to **generate free cash flow above €100m** in 2014, laying down the base for progressive growth in the following years.

[2] Free cash flow is defined as cash generated before dividend payment, net financial investments and similar payments, and investment in treasury stock