



## 2016 First Half Results Announcement 26 July 2016

Applus Services, S.A. ("Applus+" or "the Group"), one of the world's leading companies in Testing, Inspection and Certification, today announces the results for the first half year ended 30 June 2016 ("the period").

### Highlights

- Q2 revenue decline slower than Q1
- Restructuring of the Energy & Industry division is on track
- Automotive division won three tenders this year to date
- Two new non-executive directors appointed to the Board
- H1 Results:
  - Revenue of €783.7 million down organic<sup>1</sup> 6.6% (reported -8.9%)
  - Operating<sup>2</sup> profit of €70.6 million down organic<sup>1</sup> 13.1% (reported -15.1%)
  - Operating<sup>2</sup> profit margin of 9.0%, down 70 bps
  - Operating<sup>2</sup> cash flow of €46.7 million up 24.4%
  - Net Profit €17.6 million down 30.4%
  - Earnings<sup>2</sup> per share €0.32 down 17.3%
  - Net debt to EBITDA stable at 3.3x

1. Organic is at constant exchange rates

2. Adjusted operating profit, margin, cash flow and earnings per share are adjusted for Other results (see page 4)

**Fernando Basabe, Chief Executive Officer of Applus+,** said:

*"The results for the first half reflect the tough market conditions in oil and gas with the remainder of the Group continuing to perform well.*

*Group organic revenue was down 6.6% in the first half. Automotive, IDIADA, Laboratories and non oil and gas businesses within Energy & Industry all performed well in favourable end markets and with our strong market positions. Energy & Industry continues to be negatively impacted, particularly in North America, by the challenging oil and gas market environment, although the rate of decline slowed in the second quarter.*

*Adjusted operating profit margin was down 70bps in the period. We remain focused on reducing direct and indirect costs in oil and gas to mitigate the margin impact and we are seeing the benefit of the integration and restructuring of Energy and Industry.*



*Cash flow was strong helped by a working capital reduction for the oil and gas business producing a significant increase in both adjusted operating cash flow and adjusted free cash flow.*

*For the full year, we are on track to meet our guidance of organic revenue to be down mid-single digits at constant exchange rates and the margin to continue under pressure.*

*Whilst we continue to weather the substantial oil and gas headwinds, we remain confident that Applus+ is well positioned to benefit from the structural growth drivers across our end markets in the medium term."*

## **Webcast**

There will be a webcast and conference call presentation on these results today at 10.00 am Central European Summer Time. To access the webcast, use the link: <http://edge.media-server.com/m/p/vq25fyco> or via the company website at [www.applus.com](http://www.applus.com) under Investor Relations/Financial Reports. To listen by telephone dial one of the numbers below quoting the access code **8624054**.

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### **About Applus+ Group**

Applus+ is one of the world's leading and most innovative companies in the Testing, Inspection and Certification sector. It provides solutions for customers in all types of industries to ensure that their assets and products meet quality, health & safety and environmental standards and regulations.



Headquartered in Barcelona, Spain, Applus+ operates in more than 70 countries and employs 18,700 people. Applus+ operates through four global divisions, all of which operate under the Applus+ brand name. For the full year of 2015, Applus+ recorded revenue of €1,702 million and adjusted operating profit of €162.2 million.

Applus+ is listed on the Barcelona, Bilbao, Madrid and Valencia stock exchanges. The total number of shares is 130,016,755.

**ISIN: ES0105022000**

**Symbol: APPS-MC**

For more information go to [www.applus.com/en](http://www.applus.com/en)

## HALF YEAR REPORT 2016

The financial performance of the Group is presented in an “adjusted” format alongside the statutory (“reported” or “actual”) results. The adjustments are made in order that the underlying financial performance of the business can be viewed and compared to prior periods by removing the financial effects of other results.

Organic revenue and profit growth are calculated by excluding acquisitions or disposals made in the prior twelve month period to the accounting date. Organic is stated at constant exchange rates, taking the current period average rates used for the income statements and applying them to the results in the prior period.

This announcement should be read alongside the Interim Condensed Consolidated Financial Statements at 30 June 2016.

In the table below the adjusted results are presented alongside the statutory results showing the effect of those adjustments.

EUR Million	H1 2016			H1 2015			+/- % Adj. Results
	Adj. Results	Other results	Statutory results	Adj. Results	Other results	Statutory results	
Revenue	783.7	-	783.7	860.4	-	860.4	(8.9)%
Ebitda	95.0	(5.5)	89.5	108.0	(6.2)	101.8	(12.0)%
Operating Profit	70.6	(29.3)	41.2	83.1	(32.2)	50.9	(15.1)%
Net financial expenses	(11.4)	0.0	(11.4)	(11.0)	0.0	(11.0)	
Share of profit of associates	0.9	0.0	0.9	1.0	0.0	1.0	
Profit Before Taxes	60.1	(29.3)	30.7	73.2	(32.2)	40.9	(17.8)%
Income tax	(14.3)	5.5	(8.8)	(18.2)	7.4	(10.8)	
Non controlling interests	(4.4)	0.0	(4.4)	(4.9)	0.0	(4.9)	
Net Profit	41.4	(23.8)	17.6	50.0	(24.8)	25.3	(17.3)%
Number of Shares	130,016,755		130,016,755	130,016,755		130,016,755	
EPS, in Euros	0.32		0.14	0.38		0.19	(17.3)%

The figures shown in the table above are rounded to the nearest €0.1 million. The comparative figures for H1 2015 shown in the table above have been restated from those previously reported due to an increase in amortisation in acquisition intangibles by €0.8 million as permitted by International Financial Reporting Standards (IFRS) within a 12 month period of an acquisition. This is further explained in note 2.c of the Financial Statements presented as at 30 June 2016.

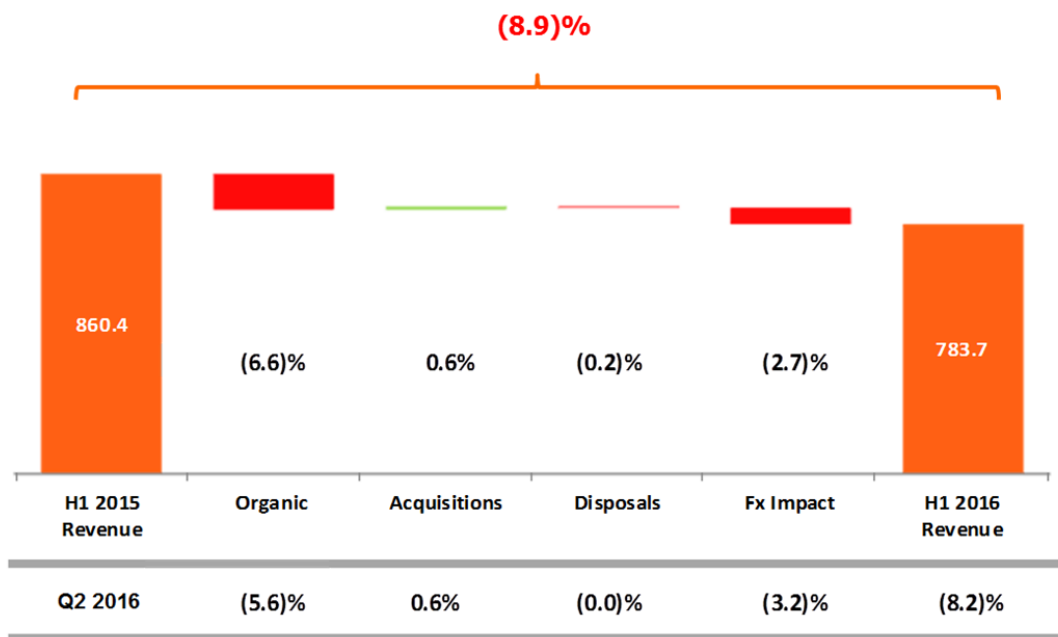
Other results of €29.3 million (H1 2015: €32.2m) in the Operating Profit represent €5.5 million (H1 2015: €6.2m) for the charge of the historical management incentive plan as disclosed at the IPO affecting EBITDA, amortisation of acquisition intangibles of €23.8 million (H1 2015: €23.5m) and in the first half of 2015 only, other costs that are primarily related to the

acquisitions and disposals of €2.5m. Tax of €5.5 million (H1 2015 €7.4m) relates to the tax impact on Other results.

## Overview of performance

Revenue decreased by 8.9% to €783.7 million in the half year period ended 30 June 2016 compared to the same period in the prior year.

The revenue bridge in € million for the half year is shown below.

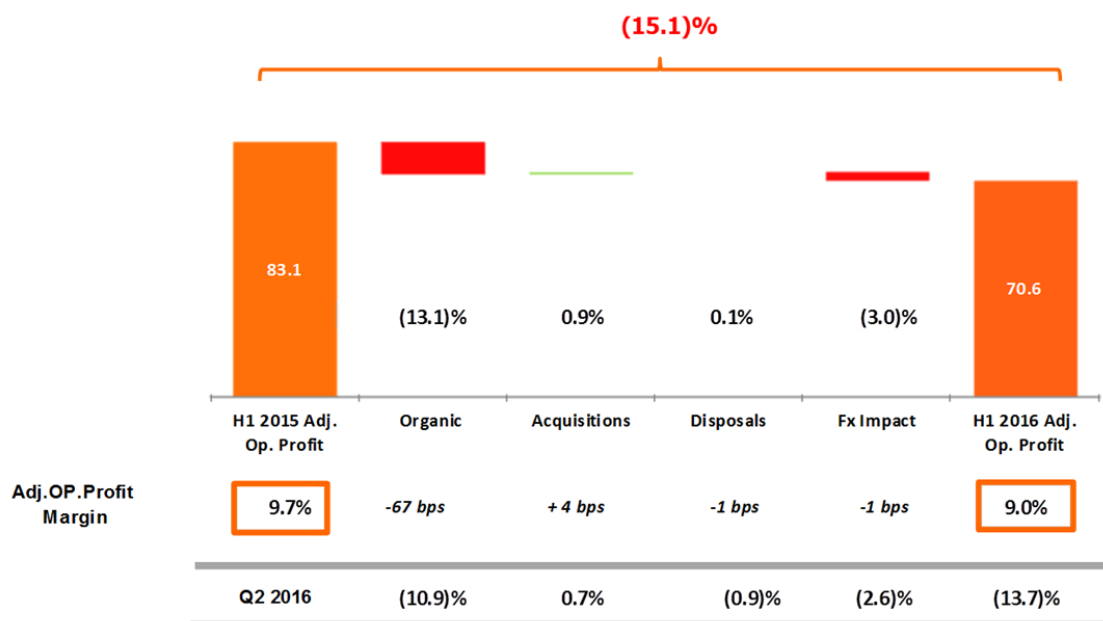


Organic revenue was down 6.6% for the first half with a modest improvement in performance in the second quarter with a 5.6% decline compared to the first quarter decline of 7.6%.

The decrease in reported revenue for the half year came primarily from the decline in organic revenue of 6.6% plus the negative impact of foreign currency translation of 2.7%. Additional revenue of 0.6% came from the last three acquisitions made: Caparo Testing Technologies in the UK; SKC Engineering in Canada and; Aerial Photography Specialist in Australia. Revenue reduction of 0.2% relates to the disposal of the non-core Applus+ RTD business in Denmark that was sold last year and had an immaterial impact on the second quarter revenue.

The adjusted operating profit decreased by 15.1% to from €83.1 million to €70.6 million for the half year ended 30 June 2016 compared to the same period in the prior year.

The adjusted operating profit bridge in € million for the half year is shown below.



The adjusted operating profit margin decreased by 70 bps to 9.0% for the period. The margin decline was mainly due to the decrease in organic revenue and price pressure coming from the oil and gas business.

The statutory operating profit decreased by 19.1% from €50.9 million to €41.2 million in the half year as a result of the adjusted operating profit decrease.

The net financial expense increased in the period from €11.0 million in the first half of 2015 to €11.4 million this half as a result of a negative currency impact of €2.0 million taken in financial expenses against a €1.0 million currency benefit in the first half of last year. For the second half of 2016, the net financial expenses are expected to be at least equal or slightly lower than the level in the second half of 2015 depending on the final foreign exchange impact.

The effective tax charge on the adjusted profit before tax was €14.3 million (H1 2015: €18.2m) giving a rate of 23.8% (H1 2015: 24.9%). The rate on the adjusted operating profit was 20.2% (H1 2015: 21.9%). The reported tax charge was €8.8 million (H1 2015: €10.8m) and this rate on the reported profit before tax was 28.7% (H1 2015: 26.4%).

The adjusted earnings per share was €0.32 which is a decrease of 17.3% on the prior year. This was mainly due to the decrease in the adjusted operating profit.



Capital expenditure on expansion of existing and into new facilities was €25.0 million (H1 2015: €22.9m) which represents 3.2% (H1 2015: 2.7%) of Group revenue. The increase in capital expenditure despite the decrease in revenue was mainly in the Automotive division where new stations have been built in new and existing regions.

Cash flow was strong in the period, with adjusted operating cash flow (after capital expenditure) of €46.7 million being 24.4% higher than the same period as last year. Adjusted free cash flow was €28.7 million just over double that generated in the same period last year. The main reason for this strong cash flow performance is due to a considerably lower working capital outflow compared to last year as a result of an improved underlying working capital performance and lower revenue in the oil and gas business.

The financial leverage of the group at the period end, measured as Net Debt to last twelve months Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) and as defined by the bank covenant, was 3.3x. This is the same ratio as this time last year and only slightly higher than the leverage at 31 December 2015 (3.1x). The covenant is tested twice a year and is set at 4.5x until June 2017 after which it falls to 4.0x.

## **Outlook**

For the full year it is expected that the Group organic revenue growth will be down mid-single digits at constant exchange rates and the margin will continue to be under pressure.

Whilst Applus+ continues to weather the substantial oil and gas headwinds, it is confident that it is well positioned to benefit from the structural growth drivers across its end markets in the medium term.

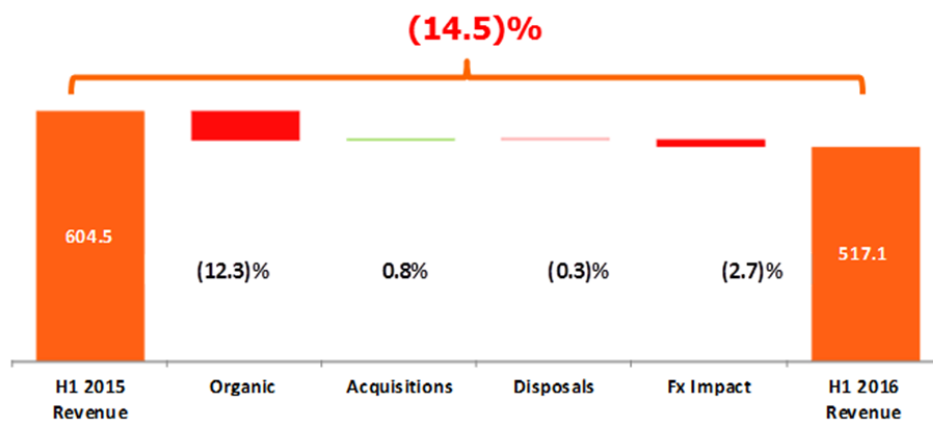
## **Operating review by division**

### **Applus+ Energy & Industry**

Applus+ Energy & Industry is a leading global provider of non-destructive testing, inspection, quality assurance and control, project management, vendor surveillance, site inspection, certification and asset integrity services as well as manpower services to the oil and gas, aerospace, power, utilities, telecommunications, minerals and civil infrastructure sectors.

The division was formed at the start of 2016 by the integration of Applus+ RTD and Applus+ Velosi-Norcontrol. These were originally three separate divisions that had operated independently, but with the increasing overlap of a number of end markets and customers and a complementary geographic and service portfolio, the Group will be able to maximise the growth opportunities through aligned marketing and branding, business line and key account managers. This reorganisation is also providing simplification, immediate cost savings and further longer term cost efficiencies. The division is sub-divided into four geographic regions: North America; Latin America; Northern Europe and; Southern Europe, Africa, Middle East and Asia Pacific.

Revenue growth bridge in € million:



The revenue in the division declined by 14.5% to €517.1 million. At constant exchange rates, organic revenue declined by 12.3% for the period of which 14.0% was in Q1 and 10.7% was in Q2.

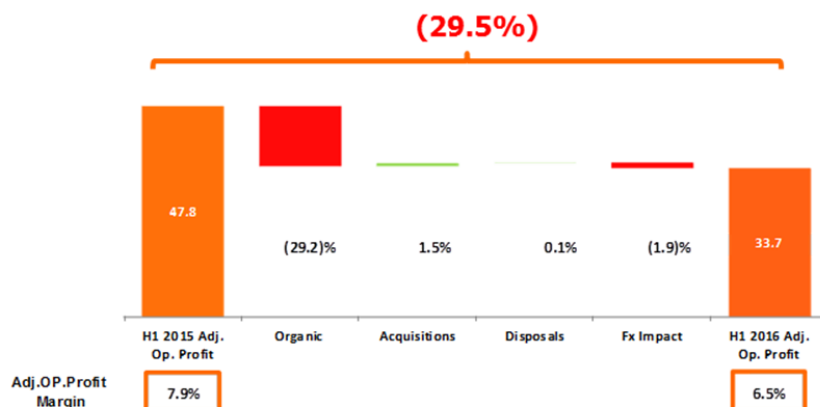
Revenue of 0.8% came from three recent acquisitions. The largest was Caparo Testing Technologies in the UK which provides non-destructive testing services to the aerospace industry. SKC Engineering was purchased in Canada and provides inspection and non-destructive testing services across a diversified client base including power and civil infrastructure. Aerial Photography Specialist was purchased at the start of 2016 and is an Australian company that specialises in using Unmanned Aerial Vehicles (drones) for inspection. These acquisitions are performing in line with the plan.

The disposal of the non-core Applus+ RTD business in Denmark that was sold in the second half of last year reduced revenue by 0.3%.

There was a negative foreign currency translation impact of 2.7% on revenue mainly due to the weak British pound, Australian dollar, Canadian dollar and Latin American currencies against the euro.



Adjusted operating profit growth bridge in € million:



The adjusted operating profit declined by 29.5% from €47.8 million to €33.7 million in the period resulting in a margin decrease of 140 bps. The margin decrease was as a result of the negative operating leverage coming from reduced revenue as well as pressure on prices for new and renewed contracts in the oil and gas market. This margin fall has been mitigated by tight cost control and the ongoing divisional restructuring.

Revenue from services to the oil and gas industry, which at the end of the period accounted for approximately two thirds of the revenue of the division, was down double digits on an organic constant currency basis.

Other end markets including power, construction, aerospace and telecom, performed well and grew at a mid-single digit rate.

North America which accounts for approximately 25% of the division by revenue and is mainly exposed to the oil and gas sector, is the region that continues to suffer the most although the decline in revenue in the second quarter was less than the first. The fires in and around Fort McMurray that forced a shut-down on many industries impacted the revenue and profit for the region. This is expected to recuperate during the remainder of the year.

Latin America, which accounts for approximately 10% of the division by revenue has a more diversified end market and grew well with organic revenue at constant exchange rates at high single digits for the half year especially following the ramp up of business into new countries. This revenue growth was however more than offset by the impact of currency translation.

In Northern Europe which accounts for approximately 18% of the division by revenue, the decline in revenue in the second quarter was also less than in the first. Activity levels from downstream companies' recurrent operational



expenditure was stable, but this was offset by lower activity for oil and gas in the North Sea and fewer one-off projects in the region including refinery shut-downs.

In Southern Europe, Africa, Middle East, Asia & Pacific which is the largest of the four regions by revenue accounting for approximately 47% of the division, the rate of decline in the second quarter was similar to the first. Spain grew at double digits continuing the strong growth trend. Italy performed well winning new global vendor surveillance and technical staffing contracts. In Africa and the Middle East, revenue fell materially as a result of a reduction in scope on a major African oil project. Excluding this, revenue was stable. The Middle East had two key energy contracts in Oman and Saudi Arabia extended to the end of the year. In Asia & Pacific revenue was down due to the ending of offshore energy contracts.

The reorganisation and restructuring of this division is well underway with more than half of the €9 million provision spent primarily to reduce costs which are expected to generate a reduction in costs of approximately €10 million in 2016 and €12 million in 2017.

### Applus+ Laboratories

Applus+ Laboratories provides a range of laboratory-based product testing, management system certification and product development services to clients in a wide range of industries including the aerospace, oil & gas and electronic payment sectors.

The reported revenue for the division increased by 5.9% from €26.9 million to €28.5 million.

<b>Eur Million</b>	<b>H1 2016</b>	<b>H1 2015 Proforma (*)</b>	<b>H1 2015</b>
<b>Revenue</b>	<b>28.5</b>	<b>26.6</b>	<b>26.9</b>
<i>% Change</i>		<i>7.0%</i>	<i>5.9%</i>
<b>Adj. Op. Profit</b>	<b>2.7</b>	<b>1.9</b>	<b>2.0</b>
<i>% Change</i>		<i>39.5%</i>	<i>34.7%</i>
<b>Margin</b>	<b>9.5%</b>	<b>7.3%</b>	<b>7.4%</b>

Applus+ Laboratories at constant exchange rates had organic revenue growth of 7.0% for the period and a negative impact of 1.1% from foreign currency translation.



The adjusted operating profit margin increased by 210 bps to 9.5% mainly as a result of the strong revenue growth.

The strong performance was across the whole division. The Industry segment accounting for 40% of the division by revenue had very good growth from mechanical testing for the Aerospace sector and electrical and electromagnetic compatibility testing for the Automobile sector. Construction accounting for 15% of the division by revenue also had strong growth especially fire testing of building materials made in Spain that are exported to Europe and the Middle East.

### Applus+ Automotive

Applus+ Automotive is a leading provider of statutory vehicle inspection services globally. The Group provides vehicle inspection and certification services across a number of jurisdictions in which periodic vehicle inspections for compliance with technical safety and environmental specifications are mandatory. The Group carried out more than 11 million vehicle inspections in 2015 across Spain, Ireland, Denmark, Finland, the United States, Argentina, Chile and Andorra.

The reported revenue for the division was flat at €151.7 million.

<b>Eur Million</b>	<b>H1 2016</b>	<b>H1 2015 Proforma (*)</b>	<b>H1 2015</b>
<b>Revenue</b>	<b>151.7</b>	<b>146.3</b>	<b>151.7</b>
<i>% Change</i>		<i>3.7%</i>	<i>(0.0)%</i>
<b>Adj. Op. Profit</b>	<b>35.3</b>	<b>34.9</b>	<b>36.5</b>
<i>% Change</i>		<i>1.2%</i>	<i>(3.4)%</i>
<b>Margin</b>	<b>23.3%</b>	<b>23.8%</b>	<b>24.1%</b>

Organic revenue at constant exchange rates grew well at 3.7% for the period, with acceleration in the second quarter, but this was entirely offset by a negative currency translation impact mainly as a result of the devaluation of the Argentinian peso.

The operating profit margin declined by 50 bps on a like for like basis and 80 bps as reported. The margin was impacted in the period by the higher than usual expenditure incurred on bidding for new contracts and start-up costs on the new Argentina and Chile contracts as well as the revenue mix, with the higher margin contracts weighing less in the period.



The exclusive concession in Ireland had good revenue growth following the investment in increased capacity to meet the higher volume of cars being inspected. Spain overall was steady with varied regional performances. The contracts in Latin America continued to benefit from strong underlying volume growth, but this was more than offset by the severe depreciation of the Argentinian peso. In the US, there was an overall decline in revenue coming from the Illinois contract as a result of the state budget not yet being approved resulting in over a month's delay in inspection reminder notifications being sent out to car owners. Denmark grew well due to market share increases, whilst market conditions in Finland continue to be difficult and revenue here declined.

Of the five tenders submitted in different countries for statutory vehicle inspection amounting to approximately €50 million in total annual revenue, the company has so far been successful in three amounting to incremental revenue of €13 million. In Uruguay a five year contract with an annual revenue estimate of €5 million. In Chile, where five concessions have been awarded in the last two years, and this year another concession was awarded for eight years with an annual revenue estimate of €2 million. In the second quarter of this year, the Company was notified of coming first on a tender in Massachusetts for an initial period of six years followed by three potential extensions of 3 years each. The revenue for the Massachusetts contract is expected to be around €6 million per annum. These new contracts are expected to start in the second half of next year or 2018.

The previously announced award of a new ten year programme in Argentina is due to start in the last quarter of this year. Once fully ramped up, this contract is expected to generate annual revenue of €8 million at current exchange rates.

There have been no further developments relating to the Catalan authorisation regime since the Supreme Court of Spain handed down its judgement at the end of April which was consistent with the judgement given by the European Court of Justice in October last year.

## **Applus+ IDIADA**

Applus+ IDIADA provides services to the world's leading vehicle manufacturers. These include safety and performance testing, engineering services and homologation (Type Approval). The Group also operates what it believes is the world's most advanced independent proving ground near Barcelona and has a broad client presence across the world's car manufacturers.

The reported revenue in the division increased by 11.9% from €77.1 million to €86.3 million and the adjusted operating profit increased by 10.5% from €10.4 million to €11.5 million. The adjusted operating profit margin fell 10 bps to 13.4%.

<b>Eur Million</b>	<b>H1 2016</b>	<b>H1 2015 Proforma (*)</b>	<b>H1 2015</b>
<b>Revenue</b>	<b>86.3</b>	<b>76.4</b>	<b>77.1</b>
<i>% Change</i>		<i>12.9%</i>	<i>11.9%</i>
<b>Adj. Op. Profit</b>	<b>11.5</b>	<b>10.6</b>	<b>10.4</b>
<i>% Change</i>		<i>9.0%</i>	<i>10.5%</i>
<b>Margin</b>	<b>13.4%</b>	<b>13.8%</b>	<b>13.5%</b>

Applus+ IDIADA at constant exchange rates had very strong organic revenue growth of 12.9% for the period with double digit organic revenue growth continuing in the second quarter. All business lines performed well especially passive safety testing of vehicles and chassis powertrain development and testing. This is being driven by the divisions strong market position in a healthy underlying market with an increase in the customer´s investments into improved safety of vehicles as well as an increase in vehicle models and increasing regulations and outsourcing of services to the industry.

The proving ground in Spain is approaching full capacity utilisation, whilst the new proving ground being built in China is due to commence operations in October.

End of 2016 Half Year Results Announcement. This announcement is a translation of the Spanish version which is extracted from the Interim Condensed Consolidated Financial Statements at 30 June 2016 and as filed with the Spanish regulator, Comisión Nacional del Mercado de Valores (CNMV). In cases of discrepancy, the Spanish version filed with the CNMV will prevail.