

Applus⁺

Applus+ Group Strategy Update 2018 - 2020

27 February 2018

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beyond
standards



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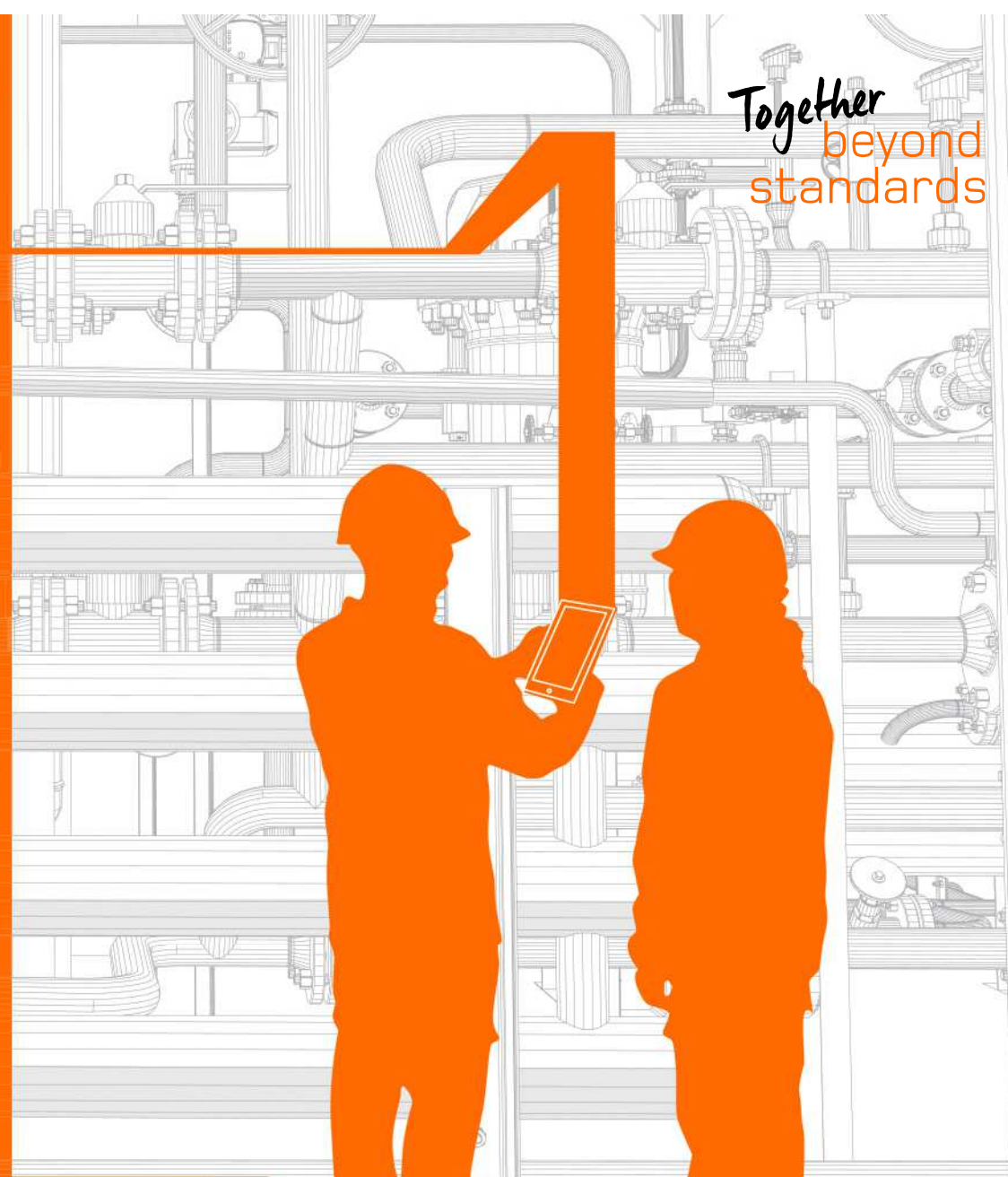
Strategy Update 2018 - 2020

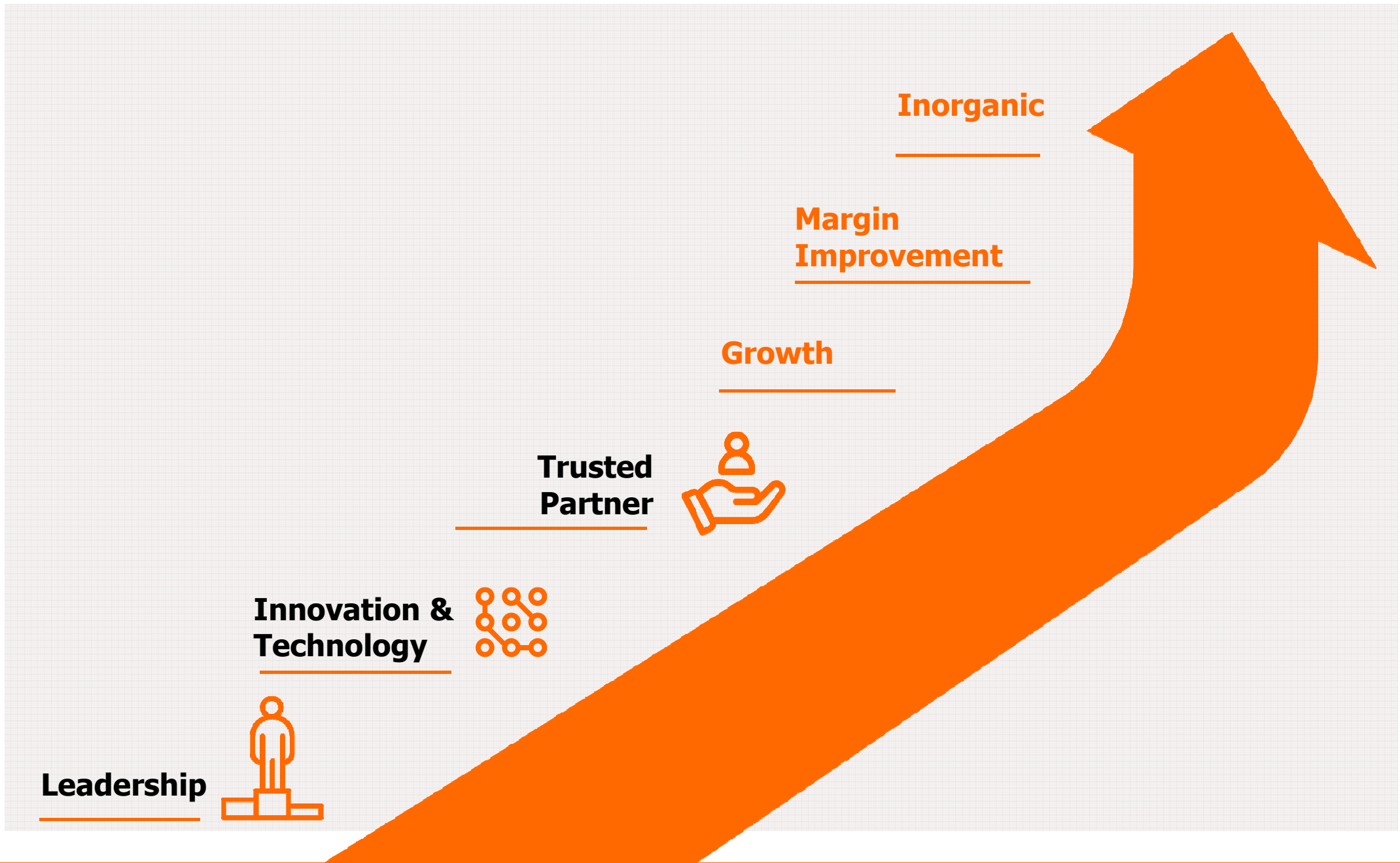
27 February 2018

Fernando Basabe
Chief Executive Officer

Ramón Fernandez
Executive Vice President
Energy & Industry Division

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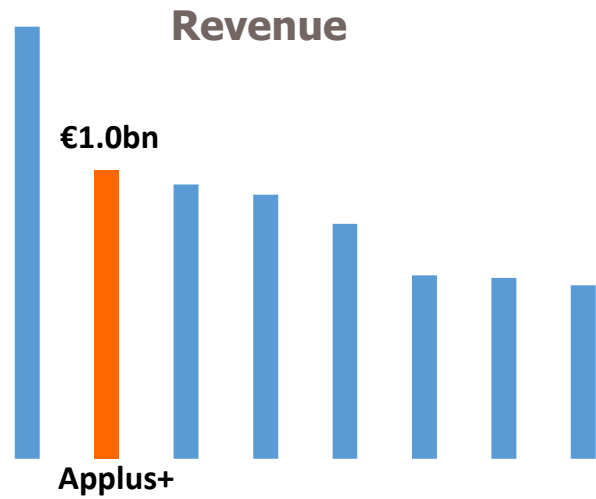




A world leader in Testing, Inspection, Certification

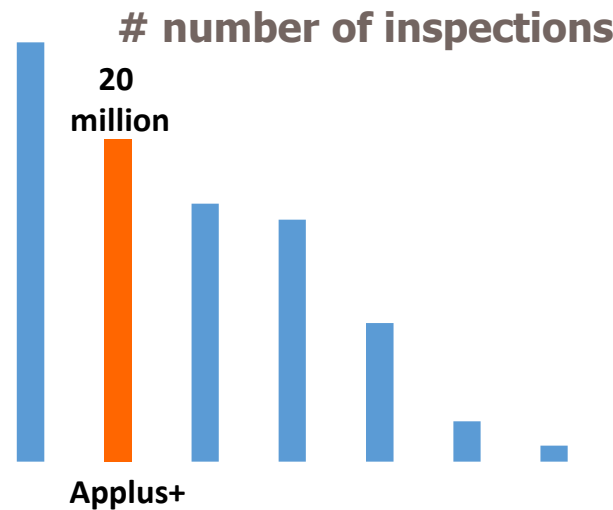
- A global leader in chosen markets
 - Inspection and NDT mission-critical services for Oil & Gas and Power end markets
 - Statutory vehicle inspection in Europe and Americas
 - Independent proving ground and passive safety testing facilities for vehicle manufacturers
- With leadership in technology based on proprietary applications

2 in Industrial Inspection (# 1 in Oil & Gas)



Other Companies in the chart are: BV, DNV GL, Intertek, Mistras, SGS, Team, TUV Sud
Source: Companies annual reports and Applus+ estimates

2 in Statutory Vehicle Inspection



Other Companies in the chart are: Dekra, Opus, SGS, TUV Nord, TUV Rheinland, TUV Sud
Number of inspections directly performed by the companies

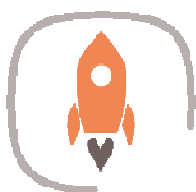
Most advanced independent testing facilities for OEM's



Continued Investment in Proprietary Technology and Know-How

- New technical solutions across industry sectors to enhance operational efficiency and to reduce risk for our clients and the public
- Build best practice by working with companies, government legislators and industry associations to help develop better, industry-wide operations and standards

R&D 2017



199
Innovation
projects



264,241
Hours worked on
innovation projects



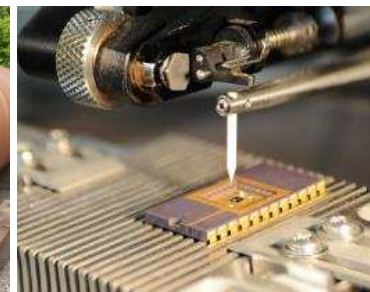
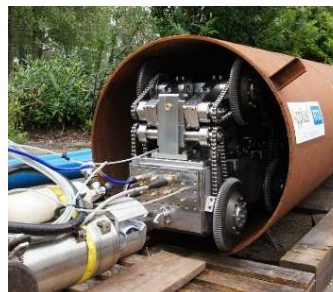
761
Employees working
part-time on innovation



85
Agreement with
external bodies



71 Accumulated Patents
13 Granted and 7 New filed Patents
in 2017

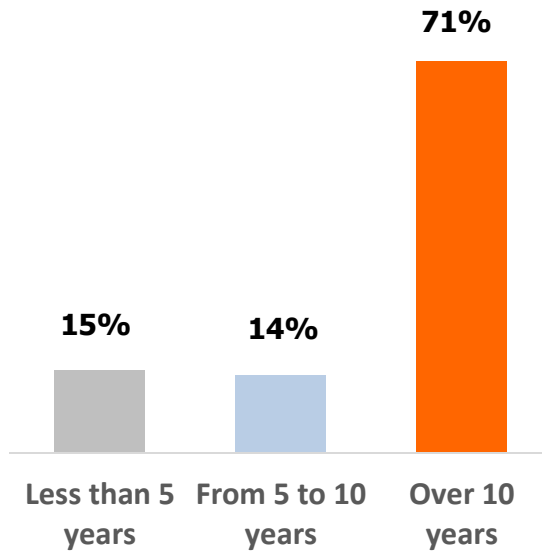


Long Term Relationships with Blue Chip Clients

- Provider of Essential and Regulatory-Driven Mission Critical Services

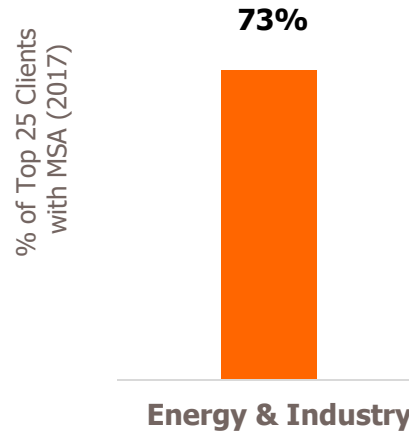
Long Term relationship (*)

Split of Group Revenue from Top 100 clients



(*) Auto división not included

Long Term Master Services Agreements with Key Clients



Long Term and Stable Statutory Vehicle Inspection contracts

- Portfolio of 30 contracts:
 - 15 new contracts won ⁽¹⁾
 - 10 renewed/extended ⁽¹⁾
 - One contract lost ⁽¹⁾

(1) From 2008 to 2017

Historical Financials

| | 2014 | 2017 | CAGR |
|--|-------|-------|--------|
| <ul style="list-style-type: none"> ■ Total Revenue (€ Million) | 1,619 | 1,583 | - 0.7% |
| <ul style="list-style-type: none"> <ul style="list-style-type: none"> ■ Oil & Gas (*) | 826 | 610 | - 9.6% |
| <ul style="list-style-type: none"> <ul style="list-style-type: none"> ■ Rest of the Group | 793 | 973 | +7.1% |
| <ul style="list-style-type: none"> ■ Adjusted Operating Profit Margin | 9.8% | 9.0% | |
| <ul style="list-style-type: none"> ■ Cash Conversion | 77% | 73% | |
| <ul style="list-style-type: none"> ■ Leverage | 3.1x | 2.4x | |
| <ul style="list-style-type: none"> ■ ROCE (**) | 21% | 20% | |

- Period significantly impacted by the tough Oil & Gas end market environment (51% of the Group Revenue in 2014 to 39% in 2017)
- Rest of the Group performing well, growing at mid single digit organic
- Leverage reduced due to the equity raise and cash generation
- A return on capital around 20% maintained
- Strong financial position ready to support the next 3 year growth plan

(*) excluding non material oil & gas Labs business

(**) Return on Capital Employed excludes the goodwill and intangible assets and the associated amortisation related to the purchase price allocation from the leverage buy out in 2007

Energy & Industry Division

Key figures



13,100 people

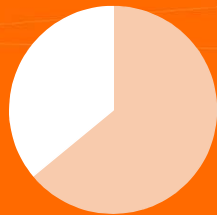


60 countries



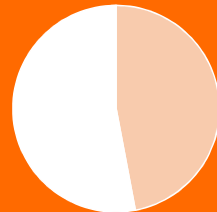
64%

Revenue



47%

Adj. Op. Profit

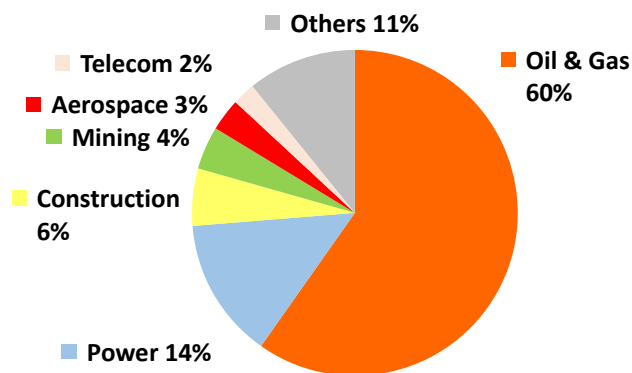


Overview

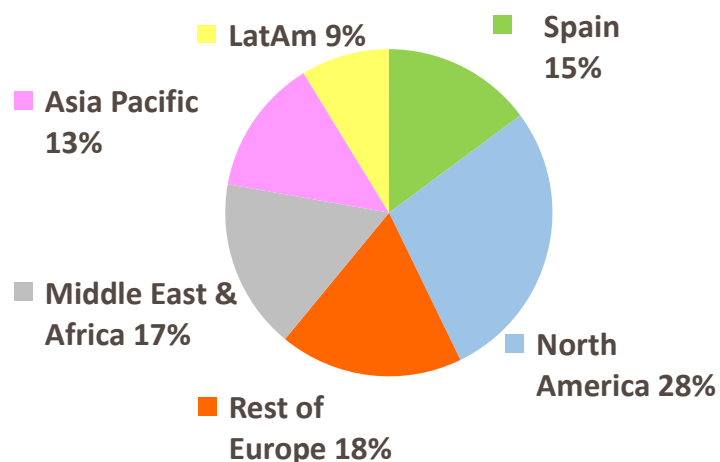
- Energy & Industry was formed at the end of 2015 as a result of the integration of 3 previously separate divisions
- The new division realised material cost savings and optimised growth opportunities through complementary geographic footprint and cross selling

| Division | Joined A+ | Expertise |
|------------|-----------|--|
| Norcontrol | 2004 | TIC Services for Power and Construction markets |
| RTD | 2007 | Non Destructive Testing for the Oil & Gas Market |
| Velosi | 2011 | Vendor Surveillance, Site Inspection and Technical Staffing for the Oil & Gas industry |

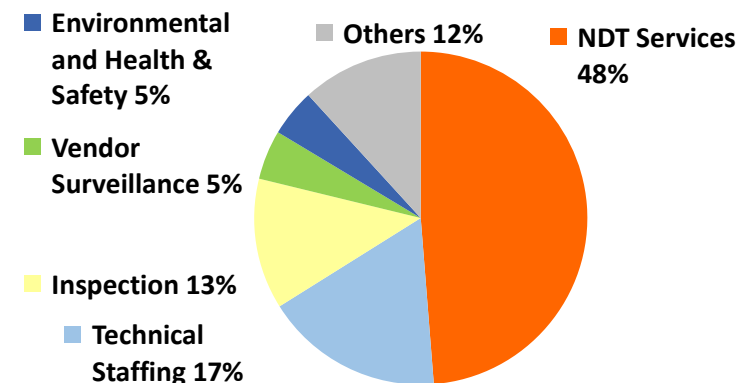
Revenue by End Market



Revenue by Geography

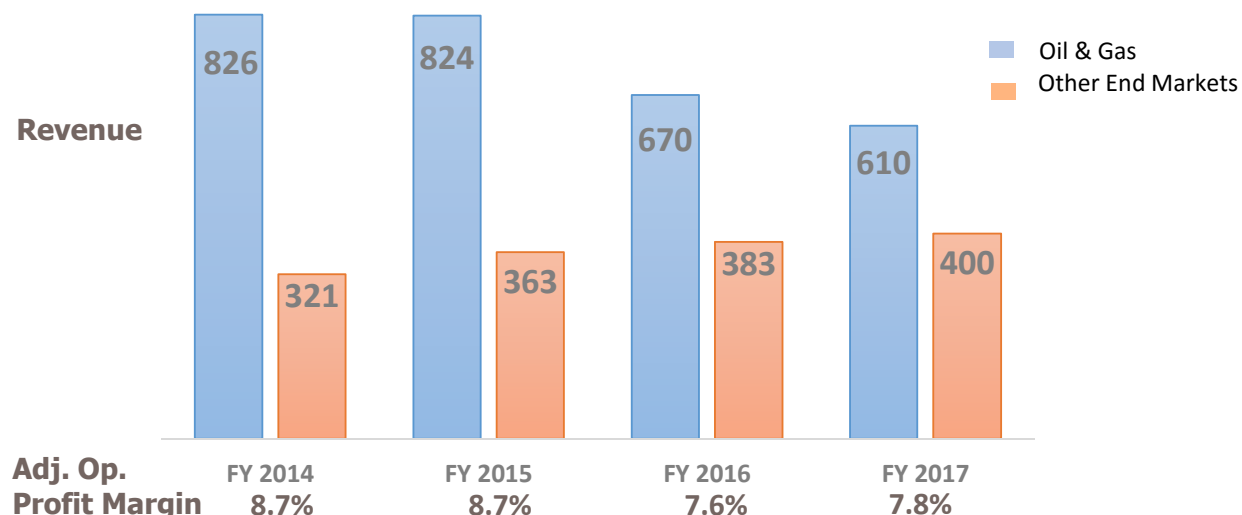


Revenue by Service

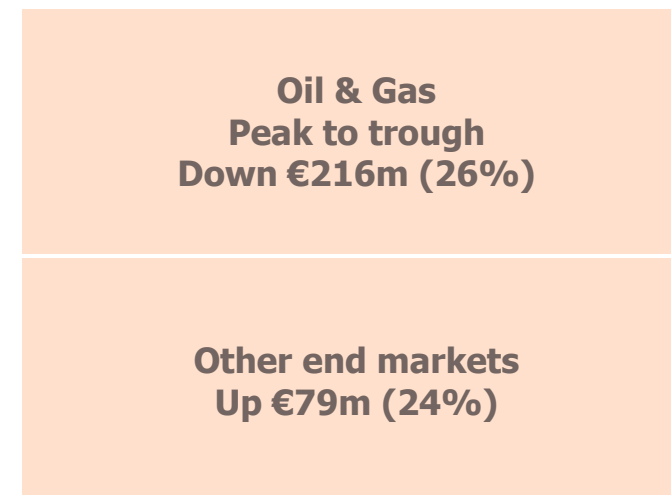


Historical Financials

EUR Million



Capex is 2.4% of revenue



- Last 3 years **significantly impacted by Oil & Gas market** environment

- **Other end markets performing well**, growing annually at mid single digit organic

- **Continued investment in proprietary technology** and know-how

- Opening new growth opportunities

- Focus on **defending market share and margin**:

- Integration of Norcontrol, RTD and Velosi

- Significant restructuring plan developed

- Rightsizing resources with workload

- Excellence in delivery

- Adapting to serve changing customer needs

End Markets

Position and Market

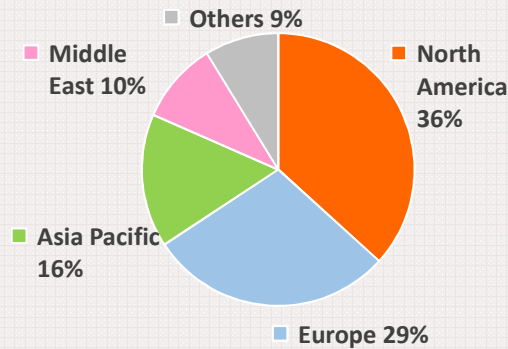
Growth Drivers

Oil & Gas (60%)



- Global **leader**
- Strong position in **key geographies**
- **Technological leadership** in Non Destructive Testing
- Strong **long term relationships** with oil majors and pipeline contractors.

Applus+ Revenue €610m



Global Market €18 Bn

- **Cyclical upturn in O&G capex**
- **Complete offering of services delivered globally**
- **Market recognition**
- **Global footprint**

End Markets

Position and Market

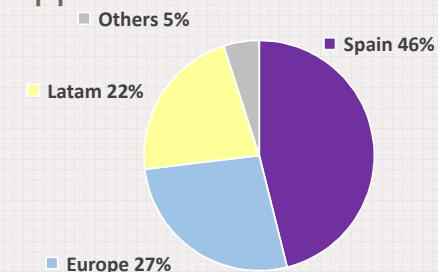
Growth Opportunity

Power
(14%)



- **Leadership position** in Spain and LatAm. Strong in Northern Europe
- **Unique knowhow** in Electrical Power generation and distribution

Applus+ Revenue €141m



Global Market €12 Bn

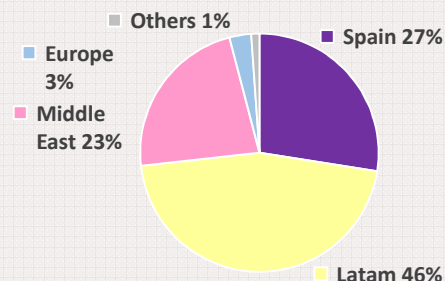
- **Sell expertise** into new geographies where we have good E&I presence
- **Renewable** energy expansion
- **Nuclear** power new investments, refurbishment and decommissioning

Infrastructure & Construction
(6%)



- **Leading position** in Spain, LatAm and developing in the Middle East
- **Expertise** for:
 - Instrumentation and monitoring of large capex projects
 - Road management maintenance services.

Applus+ Revenue €61m



Global Market €14 Bn

- **Extend** into all Middle East and LatAm countries.
- **Sell expertise** into new geographies where we have good E&I presence.

Other

- **Aerospace** (3%): Leading NDT position in the US and UK
- **Telecom** (2%): strong position and client relationships in Spain and Latam

- **Aerospace:** Services expansion through our global network.
- **Telecom:** Follow our clients into new geographies as they invest for 4G, 5G and fibre optics.

Using Applus+ designed and produced Technology to preserve leadership position and generate revenue opportunities

| | | |
|--|-------------------------------|---|
| Oil & Gas  | Experience | 80 years developing specialised equipment and technology for NDT and inspection of critical assets |
| | Innovation | More than 60 patents and 30 proprietary solutions |
| | Bespoke | Ability to create client specific solutions throughout our global network of Technology Centres |
| | Product | Full range of proprietary solutions to address client requirements |
| | Validation | Recognised by the most prestigious certification bodies, major O&G companies and offshore pipeline contractors |
| Power  | Specialised Technology | 25 years developing specialised technology (e.g. Buho System, Traza+) to provide ad hoc solutions and optimise their infrastructure |
| | Track Record | Inspected more than 200,000km of lines in 2017 with our own proprietary technology |
| Infrastructure/ Construction  | Specialised Solutions | Developed specialised solutions for assuring the structural integrity and quality of civil infrastructure |
| | Track Record | 30 projects completed in 2017 with our own solutions |

Growth Opportunities: Case Studies I

Technology Breakthrough



- **Corrosion Resistant Alloy Partial Inspection**
New inspection process developed by Applus+
- **IWEX 3D**
Discriminates between benign and serious abnormalities and enhanced data capture creates an immediate 3D image for easier visualisation and interpretation of results

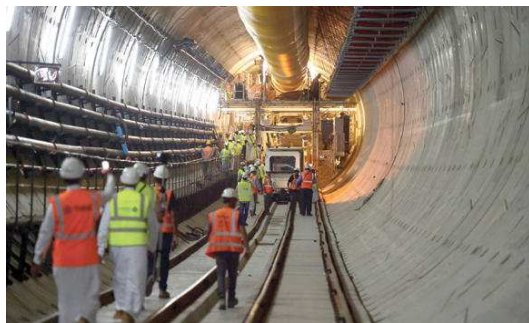


Growth Opportunities: Case Studies II

Cross Selling



- **Spain to Middle East**
Kingdom of Saudi Arabia. Metro project. Contract value over €4m over 3 years
- **Spain to Asia**
Mongolia. Wind Farms. Project value €3m over 2 years
- **USA to Latin America**
Mexico. Gas Pipeline. Project value €2.3 million over 12 months



Growth Opportunities: Case Studies III

Track Record, Brand & Reputation



- **Refineries and Chemical Plants**
West Europe. Contract value over €30 million over 3.5 years
- **Low and medium voltage grids**
Panama. Asset inventory and control. Project value over €10 million over 14 months



Key Initiatives

Target

Organic Revenue

- **Focused Growth Plan** for each country
- **Increase market share** in key markets
- **Expansion of service offering** into all geographies

**Average Annual
Mid Single Digit
growth**

Operational Excellence

- **Best practice** implementation across division
- **Operational efficiency** driving economies of scale
- **Digitally focused** on efficiency and new operating models
- **Back office optimisation** (SAP roll out in 2019 and Expanding Financial Shared Services)

**Recover
100 bps in the
period 2018-
2020**

Inorganic

- Expand presence in **Non Oil & Gas End Markets** (Power, Construction, Aerospace)
- **Enhance our position in all end markets for Key Geographies** (South America, Asia Pacific, USA)
- Focus on Technologically advanced companies

IDIADA Division

Key figures



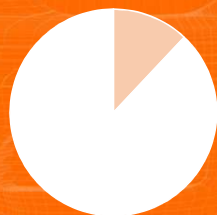
2,400 people



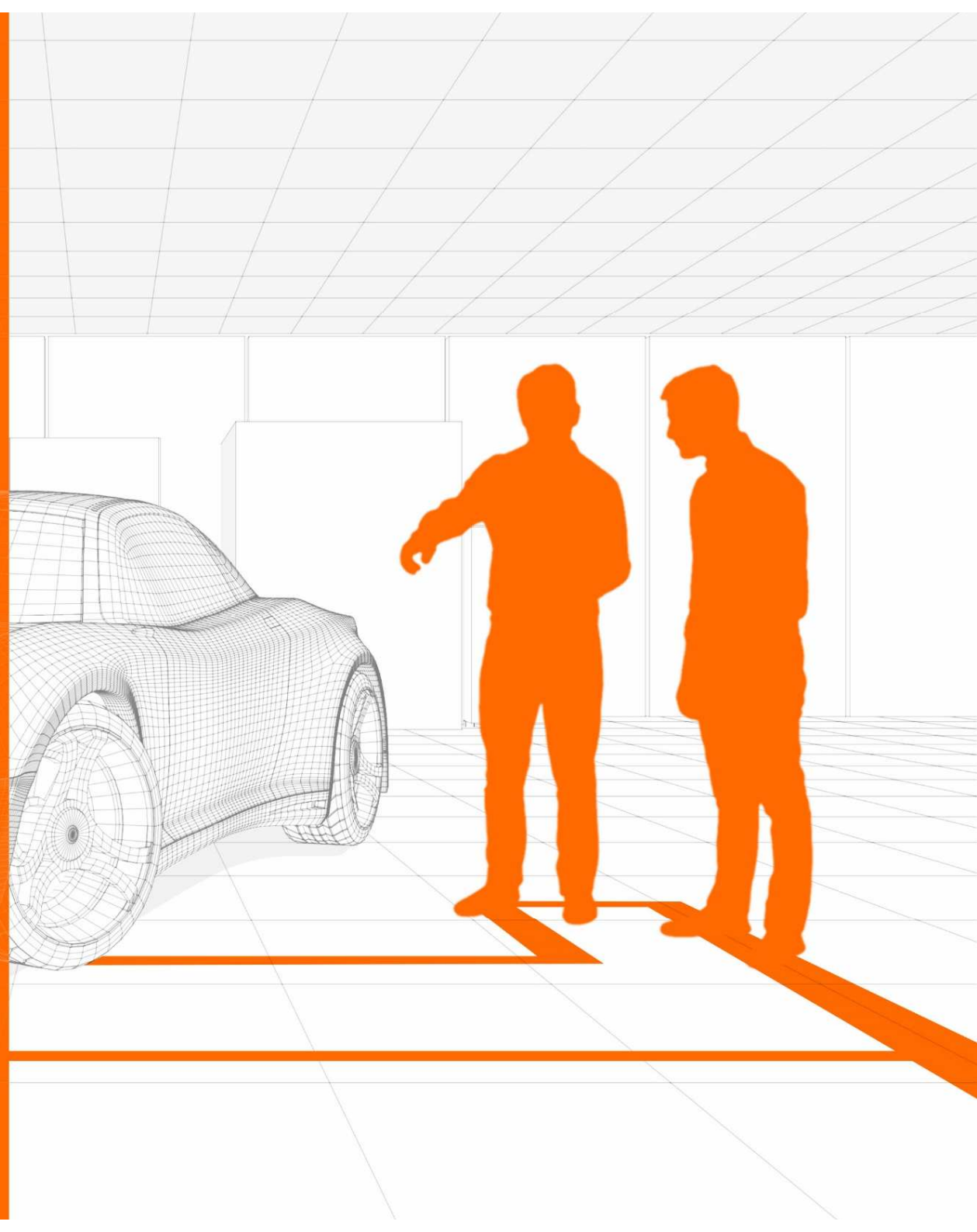
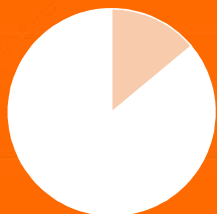
23 countries



12%
Revenue



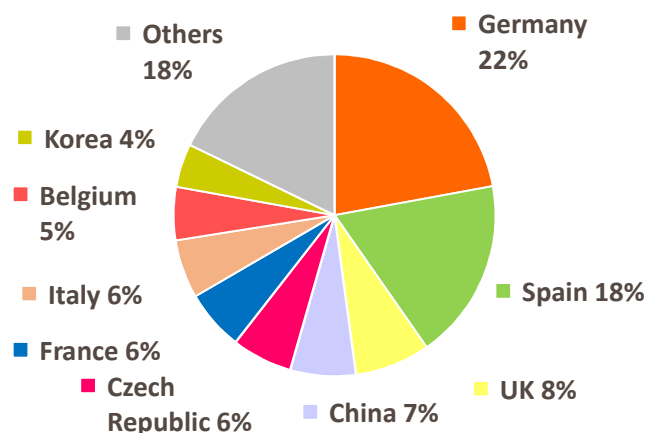
14%
Adj. Op. Profit



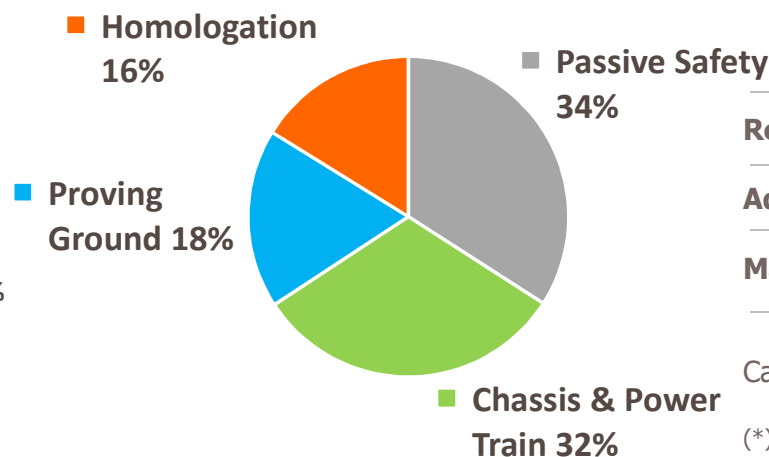
Overview

- Testing, engineering, homologation and R&D services provider to the leading vehicle manufacturers (OEMs)
- Specialised facilities, people and proving ground with knowledge of global technical requirements
- Owned 80% by Applus+ and 20% local government. Since 1999 operates the assets owned by the local government under a long term contract with current renewal/expiry of 2024

Revenue by Customer Base



Revenue by Business Line



Historical Financials 2014 - 2017

| | <u>2014</u> | <u>2014(*)</u> | <u>2017</u> | <u>CAGR (*)</u> |
|-----------------------|-------------|----------------|-------------|-----------------|
| Revenue | 145.5 | 146.2 | 198.0 | 10.6% |
| Ad. Op. Profit | 19.0 | 19.2 | 24.0 | 7.7% |
| Margin | 13.1% | 13.1% | 12.1% | |

Capex is 6% of revenue

(*) Restated figures @ 2017 rates

Drivers

- Quality and Safety
- Regulations
- Increasing car models
- Technology
- Electric and Autonomous vehicles
- Emerging markets
- Changing supply chains
- Outsourcing

Strategy

- Maintain world class testing facilities
- Retain and attract specialist knowledge
- Continue to invest in R&D and participate in EU innovation projects
- Maintain and expand geographic network to serve clients globally

Targets

- Annual organic revenue growth of high single digits
- Margin to remain in 12% range

Laboratories Division

Key figures



800 people



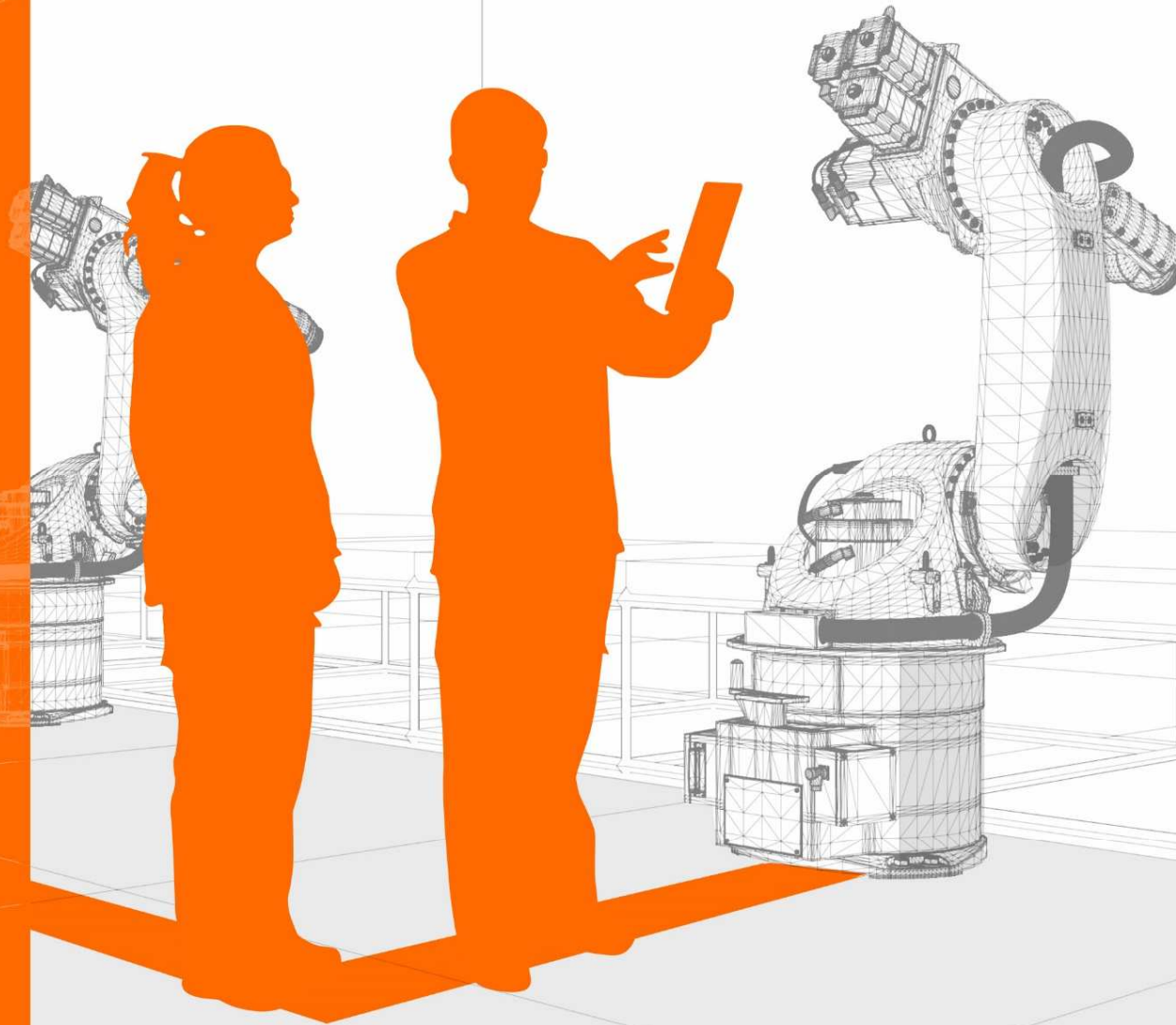
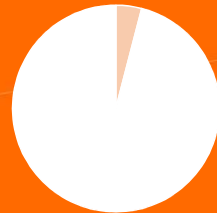
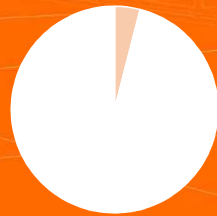
12 countries



4%
Revenue

4%

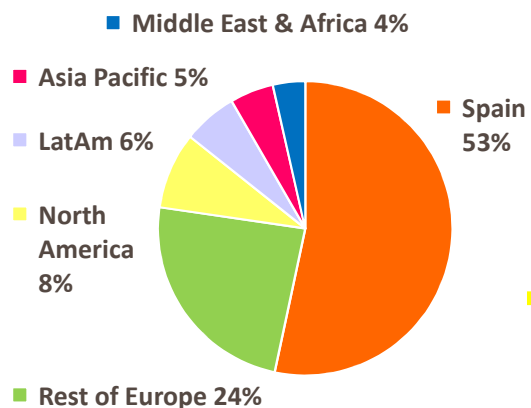
Adj. Op. Profit



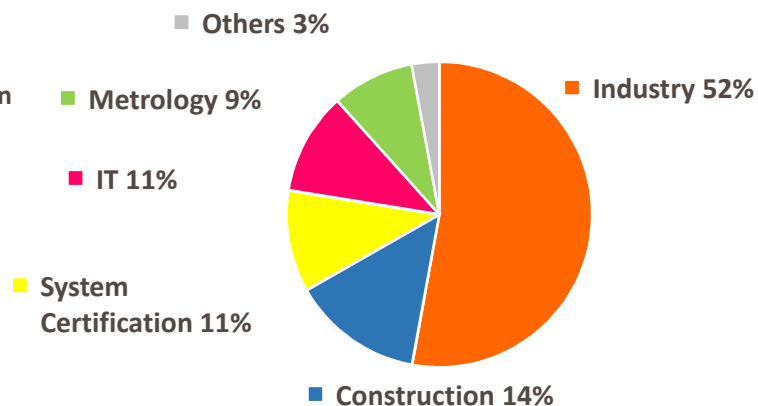
Overview

- Product testing and certification services
- Multi-technology state-of-the-art laboratories serving the Aerospace, Auto, Construction, Energy, IT industries
- Main facilities in Spain

Revenue by Geography



Revenue by Business Line



Historical Financials 2014 - 2017

| | 2014 | 2014(*) | 2017 | CAGR (*) |
|----------------|------|---------|-------|----------|
| Revenue | 47.0 | 46.8 | 64.5 | 11.3% |
| Ad. Op. Profit | 2.0 | 1.8 | 6.7 | 54.9% |
| Margin | 4.2% | 3.8% | 10.4% | |

Capex is 7% of revenue

(*) Restated figures @ 2017 rates

Drivers

- Quality and Safety
- Regulations
- Technology and increasing product variety
- Outsourcing

Strategy

- Geographic expansion
- Develop and invest in core growth business lines
- Retain and attract specialist knowledge

Targets

- Annual organic revenue growth of mid single digits
- Margin to increase by 20-30bps per annum
- Acquisitions to expand footprint and service portfolio

Automotive Division

Key figures



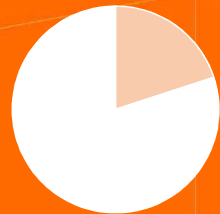
4,400 people



9 countries

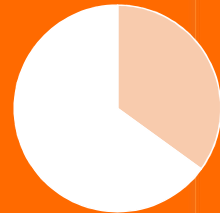


20%
Revenue



35%
Adj. Op. Profit

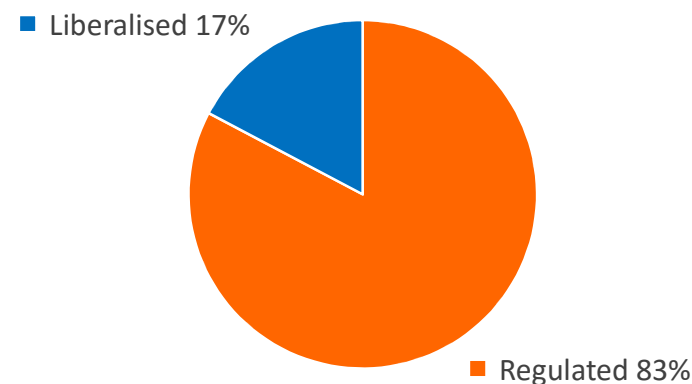
Adj. Op. Profit



Overview

- Vehicle safety and emissions inspection
- 20 million inspections across 28 programmes in 9 countries
- Drivers:
 - Regulations (emissions, safety)
 - Increasing car volume
 - Increasing compliance rates
 - Emerging markets implementing legislation
 - Outsourcing

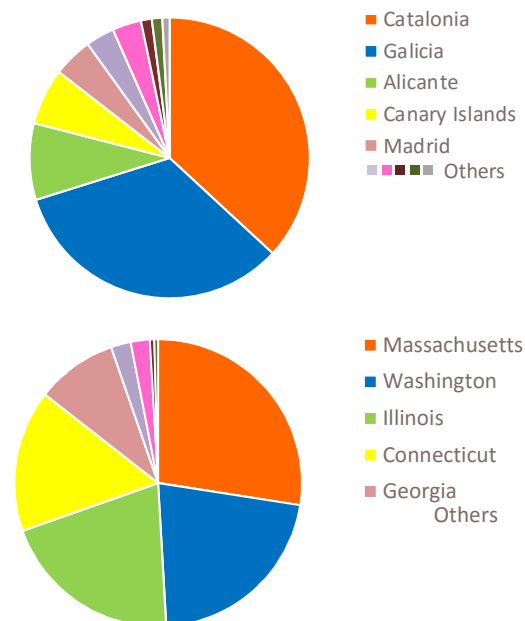
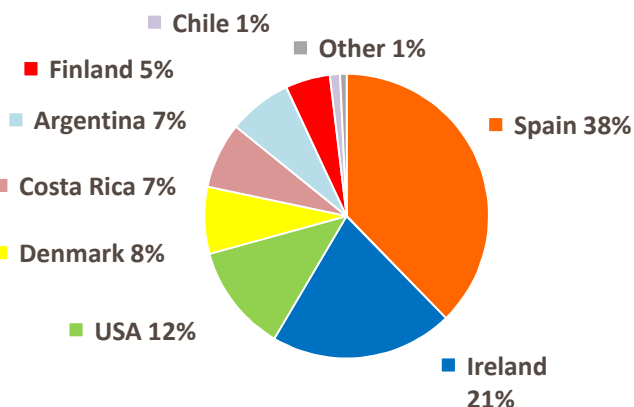
Revenue by Type of Market



Revenue

Split of Spain and USA

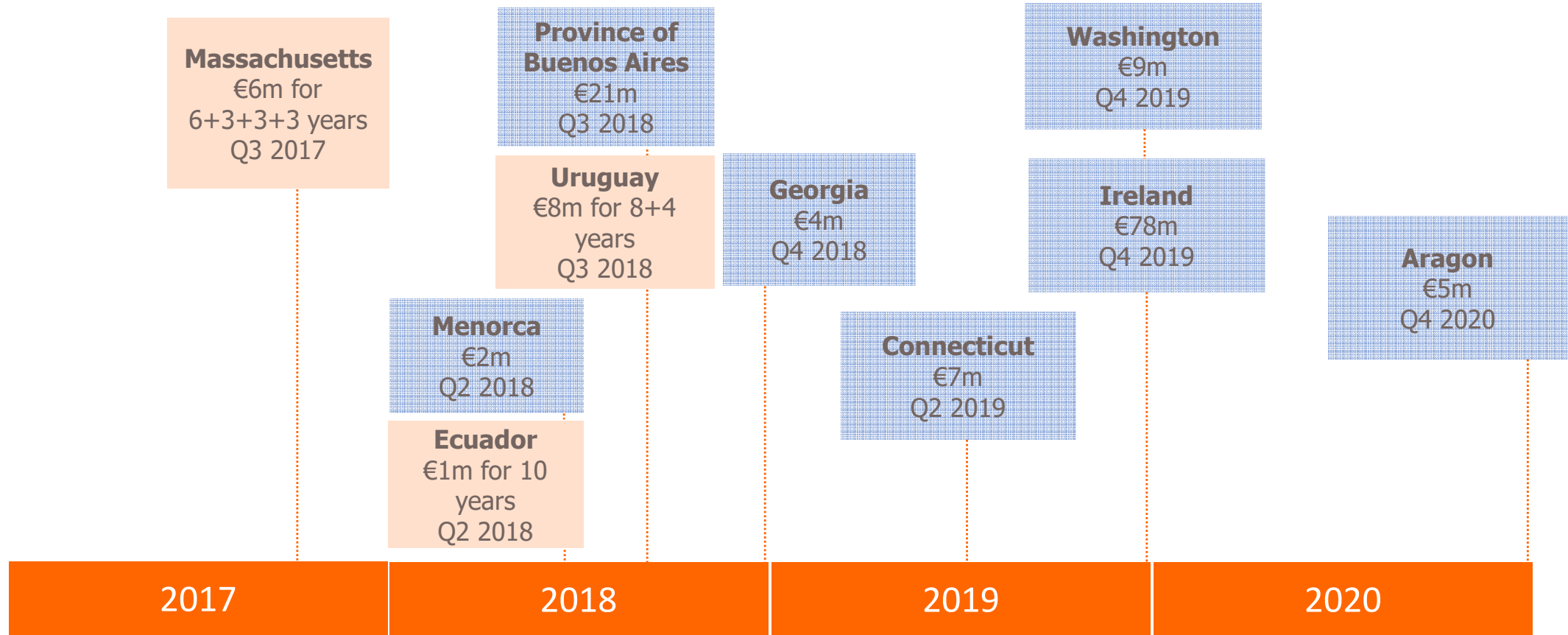
Historical Financials 2014 - 2017



| | 2014 | 2014(*) | 2017 | CAGR(*) |
|-----------------------|-------|---------|-------|---------|
| Revenue | 279.7 | 278.7 | 310.7 | 3.7% |
| Ad. Op. Profit | 60.0 | 58.4 | 58.7 | 0.2% |
| Margin | 21.5% | 21.0% | 18.9% | |

Capex is 3% of revenue

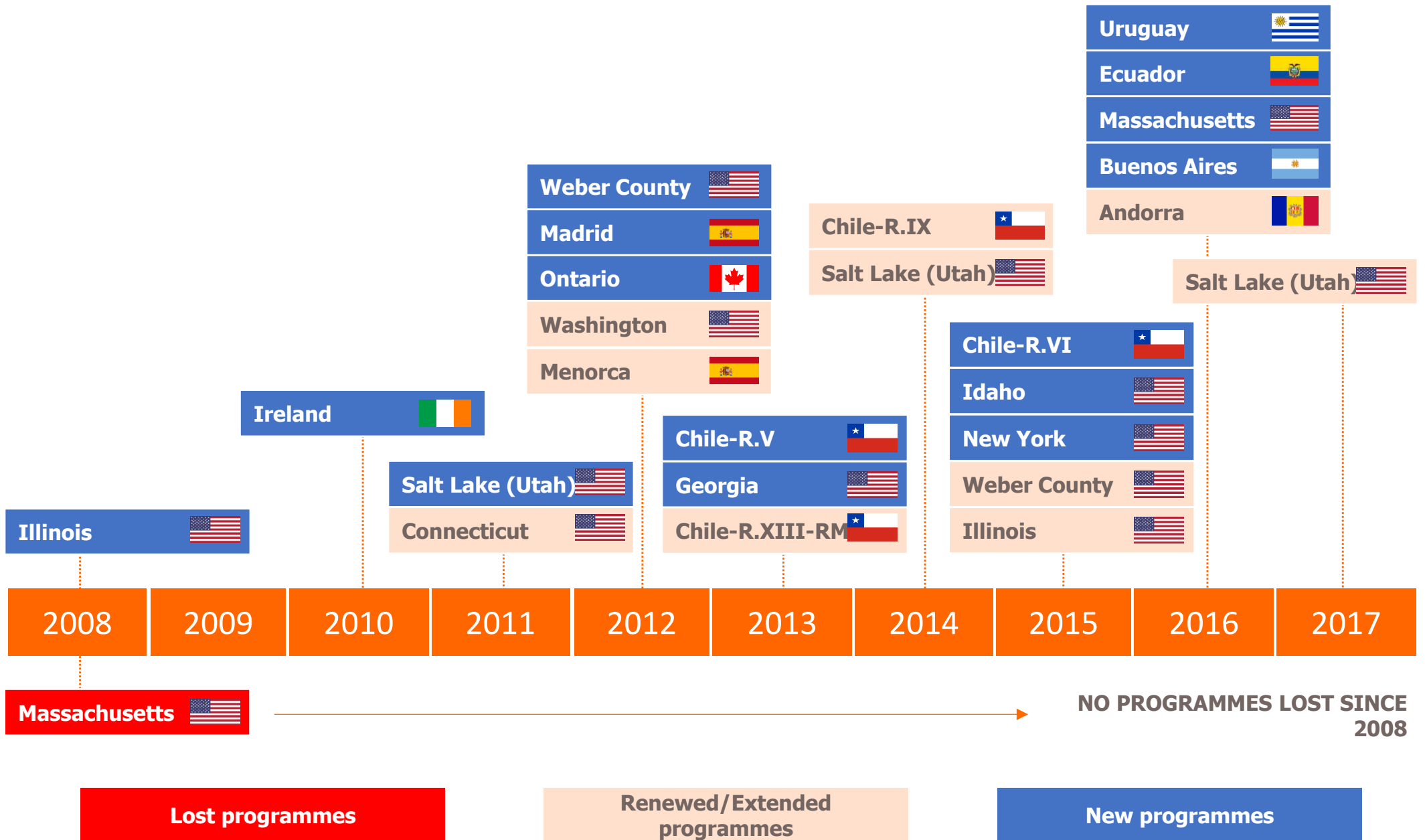
(*) Restated figures @ 2017 rates



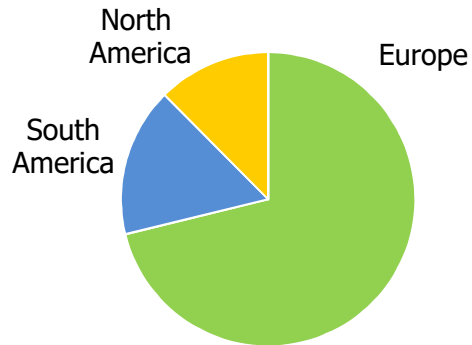
New Revenue for New is average annual expected over term of contract

Renewal 2017 Revenue for Renewals

Automotive Division: Strong track record in new and renewed programmes

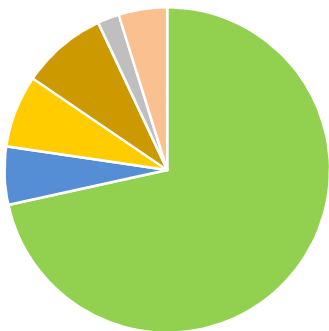


Applus+ €0.4bn

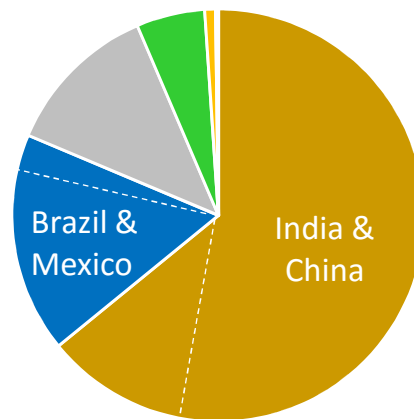


- Mature markets (Europe and US) accountable for 79% of current addressable market
- Significant potential in Asia, LatAm & Africa as they adopt developed countries legislation
 - LatAm presents an opportunity in the next 2-3 years
 - Asia will be the largest market in the long run
- Fitness test (safety + emission) natural choice for developing markets
- Our current pipeline: 23 opportunities in 10 countries mainly in LatAm and Asia

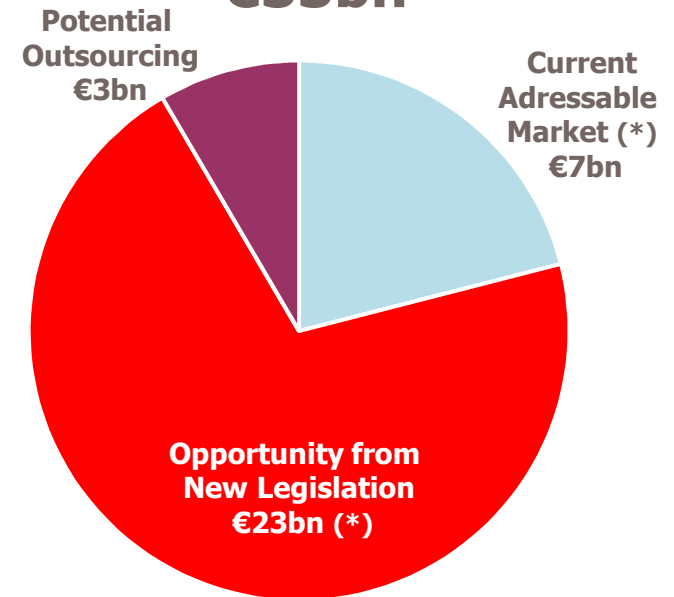
Current Adressable Market €7bn (*)



Opportunity from new Legislation €23bn (*)



Total Potential Market €33bn



■ Asia ■ South America ■ Africa ■ Europe ■ North America ■ Oceania

(*) Excluding countries where inspections performed by independent garages or Government

Strategy

- Current operations: efficiency, service, continuous innovation
- Tenders: compete only if meet profit targets
- Emerging markets: build relations and market intelligence; support authorities in designing and implementing legislation
- Inorganic: opportunistic

Targets

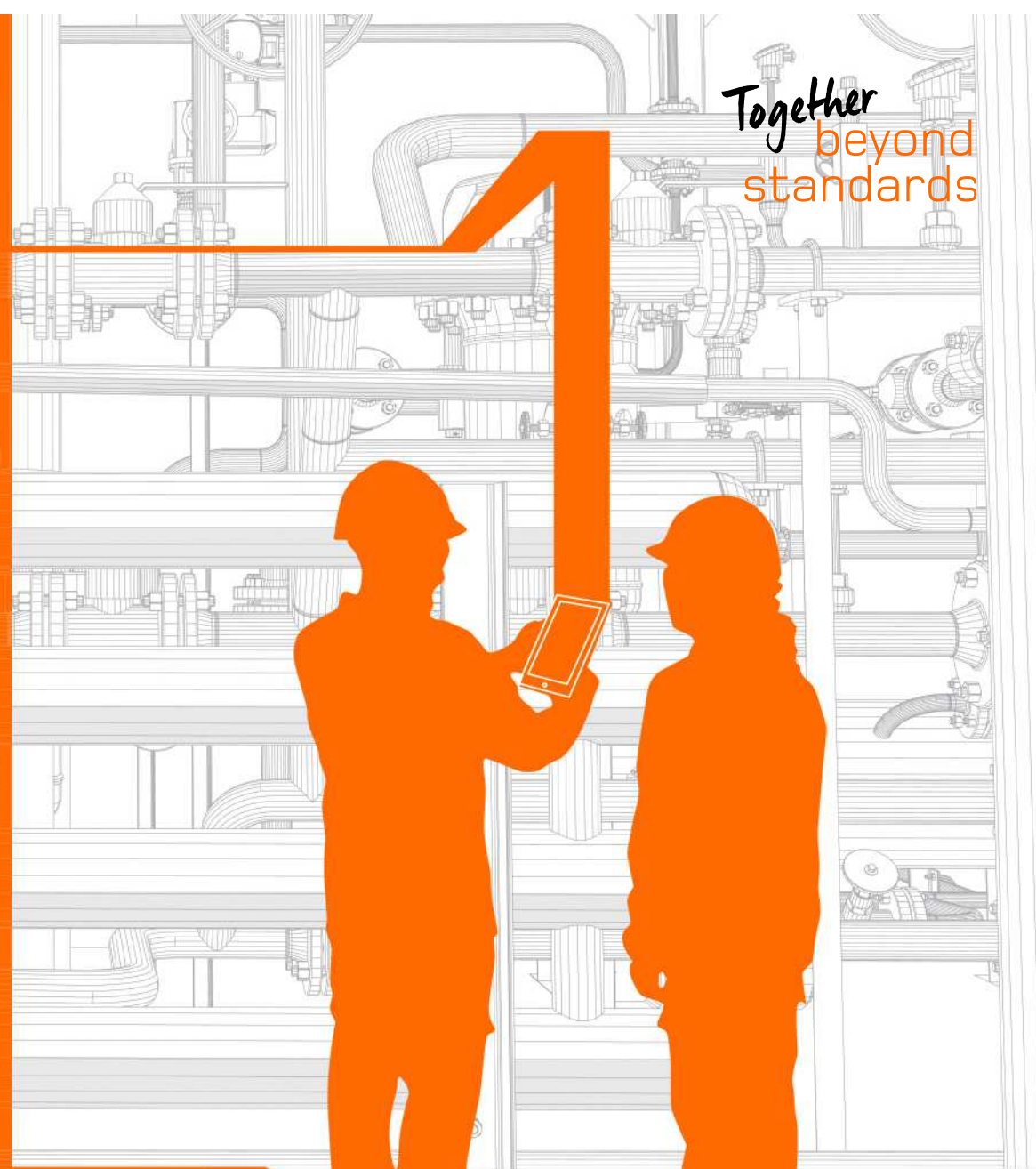
- Continue strong renewal track record and new programme wins
- Organic revenue from existing contracts to increase at low single digits
- Margin to increase > 200bps in 2018, then maintain

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Strategy Update Summary

27 February 2018

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beyond
standards



Objective

Return to growth

Focus on the operational strategy

- Leadership
- Innovation & Technology
- Trusted Partner

Financial targets over 2018 – 2020 (*)

- Annual revenue growth of mid single digits organic
- Margin improvement of 70-100 bps in 2018 and 20-30 bps in 2019 and 2020
- Strong cash generation to continue with a cash conversion above 70%

Leading to

- Organic revenue growth
- Margin improvement
- Cash generation

Capital Allocation Priorities

- Maintain dividend at 20% of Adjusted Net Profit
- Leverage below 3x
- Acquisition capacity in the range of €150 million per annum

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