asx/media release

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ALS underlying profit up 21% as global economic conditions improve

- **ALS FY2018 Underlying NPAT within guidance at $142.2million, up 21.1% on prior year**
- **Final dividend 9.0 cents per share (full year up 25.9%)**
- **Underlying EPS is 28.4 cents per share, up 22%**
- **Proposed divestment of Oil and Gas laboratories**
- **On-market Share Buyback to continue**
- **Business outlook continues to remain stable**

ALS Limited (ASX Code: ALQ) today announced an **underlying net profit** after tax from continuing operations of $142.2million for FY2018 and within the guidance range of $135 million to $145 million provided to the market in November 2017.

The result was 21.1% higher than the $117.4 million comparative underlying net profit after tax earned in the previous corresponding period (pcp). This was primarily due to improvements in market conditions for those businesses exposed to mineral commodities markets and expansion in the less cyclical Life Sciences and Industrial operations with food, environmental and tribology acquisitions in mainland Europe and South America.

The FY2018 **statutory result** from all operations was a net profit after tax attributable to equity holders of the Company of $51.8million, compared with a net profit of $81.6 million recorded in FY2017.

A full reconciliation from underlying net profit after tax to statutory net profit after tax is provided in the attached appendix. Revenue from continuing operations of $1,446.9 million was up 14.7% on the $1,261.5 million recorded in the previous corresponding period.

Commodities division's underlying contribution was up 43.5% with higher revenue and EBIT coming across the board from the geochemistry, coal, inspection and metallurgy businesses. Life Sciences revenue increased in all regions during FY2018, however the effects of competition and temporary acquisition integration-related disruptions saw underlying segment contribution for the year remain steady. Industrial division revenue was relatively flat year-on-year as increased sales from the Tribology business were largely offset by softer conditions experienced in Asset Care.

Oil and Gas Laboratories

As previously announced, the Group sold the majority of its Oil & Gas technical services business in July 2017 retaining only the laboratory testing component. In March 2018, following a further review of the Group's presence in the sector, Directors decided to exit the Oil & Gas laboratories business. A number of options are currently being considered in this regard. The results of the Oil & Gas laboratories business have been disclosed, along with those of the Oil & Gas operations sold in July 2017, as discontinued operations in the financial report.

Final Dividend

Directors have declared a final dividend of 9.0 cents per share partly franked to 40% (FY2017: 8.0 cents, partly franked to 40%), representing a payout ratio of 59% of full year underlying profit. This is toward the upper end of the Board's policy of paying out 50-60% of underlying NPAT and considered appropriate in the current market environment. The dividend will be paid on 2 July 2018 to shareholders on the register at 7 June 2018. The dividend will include conduit foreign income of 5.4 cents per share. In light of the Company's plans to continue with an on-market share buyback program the dividend reinvestment plan will not operate for the FY2018 final dividend.

Share Buyback

In November 2017 following the divestment of the Oil & Gas business and a review of ongoing capital requirements, Directors announced an on-market share buyback of up to $175 million. As at 31 March 2018 a total of 15.5 million shares (representing 3.1% of the original base) have been bought back on-market for an overall consideration of $106.8 million.

The Company will continue to use its existing cash balances and free cash flow to fund the buy-back program.

Overview of FY2018 Result

The Chairman, Bruce Phillips said "the performance of the business is strengthening and the 2017-18 results demonstrate the Group is on track in implementing its five-year Strategic Plan. It is particularly pleasing that despite industry headwinds in some sectors, Underlying NPAT and dividends have increased in excess of 20% yoy."

Commenting on the full year result, Managing Director Raj Naran noted that it was significant that all segments were contributing positive operating results in variable markets leading to improvements in underlying contribution from the pcp, the highlight being the Geochemistry business stream which achieved a 43.5% increase.

"Whilst the performance of the Commodities sector has been very strong, our Life Science and Industrial businesses have performed relatively well against the backdrop of some very competitive and variable markets. Continued growth and expansion in these segments is consistent with our strategy of focusing on operational efficiency and innovation and technology in non-cyclical sectors of the industry"

Contributions from the Company's business segments for the full year to March 2018 are summarised below.

Full year Financial Results (from continuing operations)	Revenue			Underlying EBIT*		
In millions of AUD	**FY18**	**FY17**	**+/-**	**FY18**	**FY17**	**+/-**
Commodities (inc Minerals & Coal)	518.9	427.2	+21.5%	123.5	86.1	+43.5%
Life Sciences	734.1	641.6	+14.4%	102.1	99.8	+2.3%
Industrial	193.9	192.7	+0.6%	26.2	26.5	-1.1%
Total segments (from continuing operations)	1,446.9	1,261.5	+14.7%	251.8	212.4	+18.5%
Net financing costs				(25.7)	(27.3)	
Foreign exchange gains				(4.0)	1.2	
Other corporate expenses				(26.5)	(21.2)	
Income tax expense				(51.8)	(46.5)	
Net profit attributable to minority interests				(1.6)	(1.2)	
Underlying* net profit after tax (from continuing operations)				**142.2**	**117.4**	**+21.1%**

* *attributable to equity holders of the Company and excluding restructuring and other one-off items, divestment and impairment losses and amortisation of acquired intangibles.*

Operating Businesses overview

Commodities

Stronger market conditions and scalable business models drove significant improvements the Commodities division's financial results for the year. Geochemistry sample flows increased globally as both established mining clients and junior explorers continued to lift their activity spending levels.

Sample flow into the Geochemistry business was 26% higher than FY2017 which translated into a 46% improvement in underlying contribution at an underlying margin of 27%. While cost management remained a focus for the Geochemistry business, equal attention was paid to productivity and the timely injection of human and capital resources to service the increasing workloads. Management remains optimistic about a continued recovery and the likely demand for services and therefore is investing in capacity as required to ensure turnaround times continue to meet or exceed client expectations.

Coal continues to operate well in what has been a constrained environment. Its markets started to show signs of improvement during the second half of the year in most of its geographies and business lines, however competitive pricing continues to be a feature of the operating landscape. Despite the first half being affected by business interruptions caused by Cyclone Debbie in Queensland the business continued to manage its cost base and productivity well, translating into a 13% improvement in underlying contribution.

While export demand levels are likely to be maintained over the short to medium term, there is significant uncertainty regarding future levels of domestic coal consumption as the emphasis continues to shift towards greater reliance on renewable and sustainable energy sources. In light of the impact of this increasing uncertainty on internal earnings projections, a goodwill impairment charge of $40 million was taken in September 2017 against the Coal cash generating unit.

Life Sciences

The business continued to grow during FY2018, by strengthening its leadership position in existing markets. A strong strategic growth focus (both acquired and organic) continues to be placed on the food and pharmaceutical components of Life Sciences. Key building blocks to accommodate these newer businesses are in place ready for future growth.

While revenue increased in all regions of the Life Sciences during FY2018, the effects of competition and integration-related business disruptions saw underlying segment contribution for the year marginally increase.

Successful cost management and rationalisation led to improved underlying EBIT contributions from most regions, though competitive pressures in the US resulted in lower earnings for the Americas.

Both of the key Life Sciences business streams (Environmental and Food/Pharmaceutical) delivered solid revenue gains during the year. While the Food/Pharma business recorded an underlying EBIT improvement of 27%, increased price competition in environmental testing markets produced a flat year-on-year underlying contribution for that business stream.

All regions of the food and pharmaceutical testing business delivered significant revenue gains. Further food testing and pharmaceutical acquisitions are planned for FY2019.

Industrial

Industrial division revenue was relatively flat year-on-year as increased sales from the Tribology business were largely offset by softer conditions experienced in Asset Care.

While Asset Care revenue and earnings were both slightly lower than last year, the business performed ahead of budget on both measures. Management responded well in Australia to anticipated pricing pressure and reduced activity levels in LNG construction and power station outage programs. Business development efforts led to these revenue shortfalls being largely replaced by the provision of maintenance-related services to the oil & gas, mining and water sectors. Underlying contribution margin in Australia remained above 10% in FY2018.

An increased focus on cost base discipline in Asset Care USA saw that business return to profitability in FY2018. However, the business continues to be affected by weaker than expected activity levels in the downstream oil & gas sector.

The Tribology business continued to yield strong profitability, with underlying contribution margin remaining at 24%. Revenue grew 9% across the global operations because of improved conditions in the Australian mining sector and the acquisition of Oilcheck in Brazil. Tribology continues to benefit from joint marketing and tendering efforts with the Asset Care business unit.

In recognition of the softer market conditions being experienced by the division and an increased uncertainty in earnings projections, a goodwill impairment charge of $23 million was taken in September 2017 against the Industrial cash generating unit.

Outlook for FY2019

The underlying global economic conditions in which ALS business streams operate continue to remain stable.

The Group is set to take advantage of opportunities in the Environmental and Food Sectors, (particularly in the Americas and Europe) and opportunities to leverage its assets, market share and reputation in the more cyclical Commodities division.

The Company intends to follow its usual practice of providing formal guidance for the first half year at the AGM on 1 August 2018.

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About ALS Limited

ALS is a global Testing, Inspection & Certification business. The company's strategy is to broaden its exposure into new sectors and geographies where it can take a leadership position.

The Company's underlying financial performance from **continuing operations** by business for the full year to 31 March 2018 is summarised as follows:

2018 ($M)	Underlying results[1]		Restructuring & other one-off items[1]	Amortisation of intangibles	Divestments & Impairment charges	Statutory result
	Continuing operations	Discontinued operations[2]				
Revenue	1446.9	48.2	-	-	-	**1495.1**
EBITDA[3]	289.3	0.3	(15.1)	-	0.9	**275.4**
FX losses transferred from FCTR	-	-	-	-	(11.1)	**(11.1)**
Impairment charges	-	-	-	-	(63.0)	**(63.0)**
Depreciation & amortisation	(68.0)	(4.9)	-	(2.6)	-	**(75.5)**
EBIT[3]	221.3	(4.6)	(15.1)	(2.6)	(73.2)	**125.8**
Interest expense	(25.7)	-	-	-	-	**(25.7)**
Tax expense	(51.8)	1.2	3.9	-	-	**(46.7)**
Non-controlling	143.8	(3.4)	(11.2)	(2.6)	(73.2)	**53.4**
interests	(1.6)	-	-	-	-	**(1.6)**
Net profit / (loss) after tax (NPAT)	142.2	(3.4)	(11.3)	(2.6)	(73.2)	**51.8**
Basic EPS (cents)	28.4	-	-	-	-	**10.3**
Diluted EPS (cents)	28.3	-	-	-	-	**10.3**

2017 ($M)	Underlying results[1]		Restructuring & other one-off items[1]	Amortisation of intangibles	Impairment charges	Statutory result
	Continuing operations	Discontinued operations[2]				
Revenue	1261.5	104.1	-	-	-	**1365.6**
EBITDA[3]	257.6	(7.2)	(19.1)	-	-	**231.3**
Impairments	-	-	-	-	-	-
Depreciation & amortisation	(65.2)	(13.6)	0.0	(1.5)	-	**(80.3)**
EBIT[3]	192.4	(20.8)	(19.1)	(1.5)	-	**151.0**
Interest expense	(27.3)	-	-	-	-	**(27.3)**
Tax expense	(46.5)	1.8	3.8	-	-	**(40.9)**
Non-controlling	118.6	(19.0)	(15.3)	(1.5)	-	**82.8**
interests	(1.2)	-	-	-	-	**(1.2)**
Net profit / (loss) after tax (NPAT)	117.4	(19.0)	(15.3)	(1.5)	-	**81.6**
Basic EPS (cents)	23.3	-	-	-	-	**16.2**
Diluted EPS (cents)	23.2	-	-	-	-	**16.1**

[1] The terms Underlying Operating Result and Restructuring & Other One-off Items are non-IFRS disclosures. They have been presented to assist in the assessment of the relative performance of the Group from period to period. The calculations thereof are based on non-IFRS information and are unaudited. Restructuring & Other One-Off Items in 2017 include a foreign exchange loss of $5.5 million realised on restructuring of intra-group loan balances (2016: gain of $2.8 million). Refer Note 1a to the financial statements.

[2] On 31 July 2017 the Group divested the majority of its assets in the Oil & Gas technical services sector. In March 2018, following a further review of the Group's presence in the sector, Directors decided to exit the remaining business - Oil & Gas laboratories. Refer financial statements note 1(e) – Discontinued Operations.

[3] EBITDA = EBIT plus depreciation and amortisation. EBIT = Earnings before interest and tax. The terms EBITDA and EBIT are non-IFRS disclosures. They have been presented to provide a measure of the Group's performance before the impact of depreciation and amortisation (i.e. non-cash items) as well as that of interest and tax expenses. The calculations thereof are based on non-IFRS information and are unaudited.