Trading Update

Thursday 18th April 2019

Trading Update

Operator: Ladies and gentlemen thank you for holding and welcome to the Arcadis 2019 Q1 Trading Update Call. At this moment, participants are in listen-only mode. After the presentation there will be an opportunity to ask questions.

We'd like to hand over the conference to Jurgen Pullens. Go ahead, please sir.

Jurgen Pullens: Hello. Good morning. My name is Jurgen Pullens, Director of Investor Relations for Arcadis and I like to welcome you to this Arcadis N.V. conference call and audio webcast. We decided to reintroduce the conference call with the quarterly update as a service to you and also to create ample opportunity to address your questions at one time.

We are here to discuss the company's results for the first quarter which were released this morning. With me are Peter Oosterveer, CEO, and CFO, Sarah Kuijlaars. We will start with a short presentation by Peter and Sarah and then we will open up for a Q& A. You all received the presentation this morning but it is also available through the investor section on the Arcadis website.

Just a few words about procedures before we start. We will begin with formal remarks. We call your attention to the fact that in today's session, management may reiterate forward-looking statements which were made in the press release. And we'd like to call your attention to the risk related to these statements, which are more fully described in the press release and on the company's website.

With these formalities out of the way, I now hand over to Peter.

Peter Oosterveer: Yes. Thank you very much, Jurgen, and good morning everyone and thanks for joining us today. As Jurgen said, I'm planning to provide some opening comments to lead you through some of the operational and financial highlights. And then I will also speak briefly about the small acquisition we did this quarter, turn it over to Sarah and then I will cap it off. And then of course we will open it up for questions.

So first of all, on the operational updates, we are pleased with the results we've been able to create this quarter. In particular, the fact that we've been able to create profitable growth, that we've been able to grade the margin improvement. And that all of that has also helped us to further strengthen our balance sheet.

The solid results are created in the majority of our business. You will recall from the fourth quarter that we made a distinction between those regions within Arcadis where we already see, by and large, the performance which we expect to see, and also in line with the strategic goals we had developed for ourselves during the Capital Market Day goals which are applicable for the end of 2020. And those are the markets in North America in Australia in continental Europe and the UK. And this quarter, we can safely say that these regions have contributed to a good performance in the quarter. Noted, of course, is the particularly strong performance in North America, a significant part of our business and a trend which we've seen for a couple of quarters now continues, a trend which includes growth of the top line as well as continued growth of the bottom line as well.

In terms of a performance in the – and progress in the improvement areas, as you will recall from the fourth quarter, that includes LATAM, the Middle East and Asia. We identified a number of actions. Some of them already go back to earlier quarters. And I'm pleased to see that the focus on executing the actions we identified has created the early improvements we were looking for. That doesn't mean to say that we are satisfied with where we are and we still will like to see further improvements in those regions. But it is good to see that the Middle East has contributed positively, that LATAM has contributed positively and that Asia has also seen a better performance in this quarter than in the same quarter last year. And in fact, in Asia we've seen, as you will see from the details here later, a growth of the top line as well.

I will speak to you in a minute about the continued investment that we make in the digital space and the acquisition we announced just not too long ago of EAMS.

Just looking at the financial performance then. I think by most of our key metrics we performed very well in this quarter. I think that the levers we have available to ourselves to improve our performance are showing to be effective, levers which includes the use of our global excellence centres, the focus we have on Make Every Project Count, the selectivity we are applying on picking the right clients in the right regions.

I think all of these have contributed to an operating EBITDA margin which is improved compared to the same quarter last year and organic net revenue growth of 2%, which is also in line with what we were hoping for. An EBITDA in increase which is quite significant. And then, of course, net working capital improved significantly compared to last quarter as well. And Sarah will lead you through further detail here in a minute. And that that has been reduced. And then that's also, obviously, a positive sign.

And then a sign which I think says a little bit about where we expect to go next is the fact that we did grow our backlog this quarter with 4%. And so the backlog is 4% bigger than it was at the beginning of the quarter. And that's a good signal as well.

So with that as the introductory notes, I'm doing it over Sarah.

Sarah Kuijlaars: [Inaudible].

Peter Oosterveer: Oh, excuse me. Yes, I'm going too fast. I was going to talk about digital first. So the next slide is an insight in what we did this quarter in terms of strengthening our digital offers. You will recall that in 2017, we acquired a company which is largely based in the US, E2 ManageTech, a company which gave us a greater capability –a digital capability related to environmental health and safety services.

That was followed by another relatively small acquisition in 2018, with SEAMS, a company which has a digital capability largely in water and infrastructure. And the acquisition we announced a couple of weeks ago is – or actually with the press release, is the majority stake we took in EAMS, another UK-based enterprise asset management company. We believe that this edition will provide us a competitive advantage. Things this company does are in the space of asset management. And examples of that are, for instance, work that EAMS does with Heathrow airports, work EAMS does with several providers in metro services, digital capabilities which will help our clients to be more effective in the use of their assets.

And when you're looking at EAMS more specifically, not only will you see a very good digital capability, but also, to a large extent, clients which is similar to the clients Arcadis is already working for. So a very complimentary combination of capabilities. And our expectation is that with the presence we have, the footprint we have, we will be able to further grow that capability which has come to us now through EAMS.

So now I'm really turning it over to Sarah.

Sarah Kuijlaars: Thank you Peter. Good morning everyone. So now turning to slide five, I'm pleased to share a strong set of financial results for quarter one, 2019. With revenue growth and improved operating margin, tight working capital management and lower net debt, we continue to make tangible progress on a strategic framework and continue to deliver a sustained strengthened balance sheet.

Starting with revenue, we report €628 million, a 5% improvement, year on year, and we've delivered an organic growth of 2%, which is the seventh consecutive quarter of organic growth. As Peter mentioned, this is led by a strong 8% organic growth in North America, a region which is almost 30% of our business. We have particularly strong growth in Environment, our largest US business and we see growth across the board. Water and infrastructure also contribute strong results. This growth is a result of the strong order pickup we saw in Q4. Our healthy backlog continues with further strong order intake in Q1.

I think it's also worth having an example of a project from the US this quarter, so this is a picture of a project in Chicago and we're the managing partner of a consortium with Jacobs and Ardmore-Roderick, working with Chicago Transit Authority to address Chicago's aging infrastructure and provide better sustainable trans[?] options for citizens.

This is one of the largest capital improvement projects in the history of Chicago Transport Transit Authority.

So moving now to Latin America. This is a limited impact on the segment growth, given its size but it's worth mentioning that it has reported organic revenue growth for the second quarter in a row. A growth trajectory for the first time in over three years.

Turning now to Europe and Middle East which represents 46% of our net revenues. Continental Europe net revenue development was flat, partly driven by one less working day in the Netherlands. However, order intake was strong in Q1 with wins in all countries.

The UK continues to show positive growth despite Brexit uncertainty. Infrastructure spending is slightly down, which we've been able to offset with increased revenues and buildings where we continue to see ample opportunities in the market which reflected in our healthy order book.

The Middle East showed lower revenues. This is a result of our combined disciplined – our continued discipline approach with respect to select bidding. Also contributing to a high margin. The Middle East is now stabilising it's footprint with some recent healthy wins in programme management, fully in line with our strategic review.

Onto Asia Pacific which represents 13% of our net revenues. Australia showed a decline which is due to the timing of the ramp-up of large projects. In Q1, we have a strong order intake so it continues to be a very healthy performing region.

Asia showed positive growth after four quarters decline. We saw good results in China with an increased focus towards project and cost management. In line with our simplified or organisational structure, we are currently working on the planned exiting[?] from a number of minor underperforming markets. We expect this will have a minimal impact on our revenue once executed

And finally, CallisonRTKL delivered a 1% revenue growth with a positive contribution from Europe.

We'll now turn to slide six, where we show the broader set to financial metrics. So before talking to the details, it's worth highlighting that these figures are presented in a consistent basis to previous years, i.e. in line with IFRS 17. So the details about IFRS 16 include this backup. Our interim figures will be provided both in line with IS 17 and IFRS 16. Sharing our figures on a consistent basis today allows us to better demonstrate the improved results of our underlying business as part of this trading update.

So from a revenue of €628 million, we delivered an operating EBITDA of €47 million, an improvement, year on year, of 10%. This resulted in an improved margin of 7.5%, where we've seen improvements across the majority of our businesses.

Now turning to our net working capital performance. Our DSO[?] stands at 86 days, a year-on-year improvement of eight days. This translates to a sustained improvement of net working capital at 17.4%, which is our strongest performance for a Q1 for at least five years and contributes to our sustained, strengthened balance sheet. So our improved revenue margin and working capital management results in a net debt position for end of March of €409 million and an EBITDA of €56 million. This gives a net debt to EBITDA senior leverage ratio of 1.9, so below two and fully in line with our strategic framework.

Turning now to slide seven I'd like to share some more details on the improvement in our quality of our receivables. So as I mentioned, we show an improvement of our overall receivable position to 17.4% but it's worth highlighting the improvement we see in the aged receivables. So the oldest category of more than 120 days, we see a reduction of €38 million. And for those in the time backend of 31 to 120 days, we show reduction of €17 million.

We have achieved this by embedding a sharpened and standardised process across the globe, by utilising a standard set of KPIs, with visibility[?] down to clients' level and a consistent approach. We've engaged the full focus of all Arcadians across the business, including client development, project managers and finance. We will continue this disciplined approach as working capital management remains a key enabler of maintaining our sustained, strengthened balance sheet.

I'll now cross back to Peter.

Peter Oosterveer: All right. Thanks Sarah. So with a summary of our first quarter performance, we expect that you're keen to know what will come next and what we plan to focus on for the remainder of the year. And so that is summarised on the very last slide before we open it up for questions. First of all, as you will recall, we launched our new strategy during the Capital Markets Day in 2017. And looking at the progress we've made, I'm convinced that we have the right strategy and that we are on the right path.

Needless to say, that what helps us is that our key markets continue to perform very well. And that we have seen the early fruits of our actions in Asia and Latin America and the Middle East. But as I mentioned before, there's still more work to be done. We expect that further margin improvements will come from a number of actions we have already initiated and will benefit from further, which is including the focus on Make Every Project Count, the very structured programme we launched about a year ago and is showing really positive signs in all the regions in which we implemented this now. The further use of our global excellence centres mentioned before as an opportunity to further improve our financial performance.

And then, I'm really pleased to see that the focus and discipline on driving the actions we've identified for the regions which needs further improvements, particularly in Middle East and Asia, is actually contributing to, already, a better performance. And we are, as you will appreciate, determined to continue to maintain that focus and discipline.

The growth momentum in North America, Continental Europe, the UK and Australia and CallisonRTKL is, of course, a great foundation to start from. And we have all the inteny to continue the positive moment. The investments we made through the acquisition of EAMS and the investments we make on an ongoing basis in further strengthening our digital capabilities through, for instance, our expedition DNA programme, will further help to improve our performance going forward.

What is also a significant contributor is the focus on making sure that we have the right clients in front of us, that we pick the right opportunities – those opportunities which contribute to our performance going forward.

I'd like to mention quickly the progress we've made in Brazil. We have additional volume of gas under contract in the first – or in the last quarter, excuse me, we mentioned that we are 30% under contract. We now at 50% under contract with an option for another 20%. The expectation is that we will start to deliver gas, starting next month and then ramp up the production further throughout the subsequent quarters. The expectation also is that in the second half of the year, we will be a cash positive on our assets in Brazil. And as we've stated before, our intent and focus is still very much on divesting of these assets through the remainder of the year.

And finally, we are pleased with the improvement and the strengthening of our balance sheet, and believe that the actions we have taken and the performance we've demonstrated in the first quarter will continue to help with further strengthening the balance sheets. And it will definitely, obviously, remain an area of focus.

So pleased with the performance in the quarter, pleased with the noticeable positive signals in those geographical areas where we had required improvement. Pleased with the momentum in our key markets, but probably most pleased with the momentum, the [inaudible] adjustment of focus in Arcadis internally, at all levels and in all regions, to diligently execute our strategy and maintain the moment we've built to further improve our performance.

So with that we are ready to take your questions.

Operator: Ladies and gentlemen, we will start the question and answer session now. To be registered for the question and answer queue, please press star one star. So star one for your questions or remarks.

The first one is from Hans Pluijgers, Kepler Cheuvreux. Go ahead please sir.

Hans Pluijgers (Kepler Chevreux): Good morning, Sarah and Peter and, of course, Jurgen and Christine[?]. A few questions from my side. To start with, looking at the sales performance, discussing LATAM and Middle East a little bit, to give more or less a flavour of LATAM, let's say, which segments are now driving the improvement and how sustainable do you believe it is. Or do you see some bigger projects coming in or, is it, let's say, across the board?

And secondly, on the Middle East you indicated you should see some stabilisation of sales. So what do you expect the sales trends to be further into the year, and where are, let's say, your key focus on – in that region? If you could give us some more flavour on that.

And then on the payables, yeah, I see, let's say, that it's a coming down. Could you give us some more flavour on precisely what the moving parts are? And, of course, seasonally in Q1 it's always a little bit down. So is there any, let's say, an important thing there what's happening there to mention?

And then lastly on Ireland, did you gain some additional contracts. I've got a little bit of feeling that there's still a little bit slower than expected. [Inaudible] some feeling what your ideas are on the whole situation. Do you still have some, let's say, disappointment there? And how much buffer do you still have before – with respect to the assumptions, for the write-downs you have done so far before we could see some additional write-downs? Or what's your general view on that, could you give some feeling on that?

Peter Oosterveer: Okay, thanks Hans. I will take the first and the second one on the Middle East and Ireland and then I'll ask Sarah to comment on the payables. So let me take LATAM first. That was your first question. And, of course, the question is in recognition of up the better performance in LATAM. And the question specifically what's driving it and how you see the future.

As we said in a press release, it is probably the combination of actions we took over the last three years and particularly in significantly reducing our footprint in LATAM. And then in combination with that, of course, a business environments which, now that the elections are behind us, is seen as more stable and, by quite a few people, seen as more positive as well. So that's why we highlighted in our press release that we are a little bit more positive about the business environment.

What is driving it to? For us, it is largely environment and infrastructure. In fact, if you look at our environmental business in LATAM – and I'm talking specifically about Brazil actually – the environmental business in Brazil has held up quite nicely, even through the difficult past years. And is now at the point where it's almost as big as infrastructure was, so it is positive. But the expectation is that we will see an increase of the infrastructure spending going forward.

So we believe that, with this result in the first quarter, we've turned the corner. We'd like to see more evidence that that indeed the business environment is more stable. And then on top of Brazil, which I spoke about only so far, what drives our business in Chile, which is the second a sizable part of the business, is particularly investments in mining. And as you will probably have seen that the mining business as a whole appears to be getting ready for another growth spurt. So that is that's positive as well. So that's driving the business in LATAM.

Then on the Middle East, you asked the question what is the key focus. As we already communicated a couple of quarters ago, our focus is largely on three countries, the Emirates, Qatar, and then selectively and very selectively in Saudi. And selectively in Saudi really means for us only programme management and project management type of contracts, which tend to be more profitable context and the least risky contracts. And that is clearly what we're seeing right now. So we are still quite okay, I say this again, with the reduction of revenue in light of the fact that it actually has created an improvement of the bottom line. And the expectation is that throughout 2019 we will continue to be extremely selective and focus more on making sure that we have profitable growth, that we get paid by our clients, rather than focusing aggressively on top line growth.

But the intent is that we will see top line growth again. But again, it is not our predominant focus at this point in time. It is a further stabilising the business and making sure that we get our bills paid and that we focus on the on the right clients.

And then lastly before I ask Sarah to comment on the payables, you commented that appear to be slower than expected and I am a stand-up[?] perception. I can see that perception. I think for us it's probably not so much the case because we have gotten used to the fact that in Brazil, things are more difficult than they are in other places. So our assumptions are probably already more of realistic, based on what we've seen in the past.

That doesn't mean to say that that we're not overcoming hurdles as we speak. There's always a new hurdles but by and large, the progress we are making, the fact that we now have at least 50% of the gas under contract and potentially another 20% relatively soon, that we are expecting to see trucks leaving the facility starting next month, is progress. And the fact that we have the largest gas and electricity facility producing a pretty much 100% of the capacity is progress. We will continue to make progress on the last facility.

And then, of course, the big step here is still to make sure that that we have enough interested parties in the assets. And the markets survey ITAL[?] is conducting for us, as we speak, is focusing on exactly that. And we always had assumed that that would kick off in the second quarter and that's what we're doing. So we're still by our account and by our measures largely on track. And again, Hans, that is already assuming that things in Brazil tend to go slower than in many other places in the world.

Sarah Kuijlaars: Thanks Peter. And building on – so your question there, [inaudible] on the payables. So, indeed, on the slide seven, we highlight the improvement in receivables and that's where the main internal focus is on. On the payables side, if you look like-for-like from a Q1 19 versus Q1 18, there's only some €10 million difference there and that's part of the normal course of business. And there's not any particular spike in any particular region but there's a slight increase, but no main underlying cause there.

Hans Pluijgers: And is that increase mainly relating to, let's say, also the relatively higher gross revenue alliance? Or just to, let's say – yeah, related to, for example, the big project in Chicago?

Sarah Kuijlaars: Yeah, no, absolutely it is related to that and there is – US is a main contributor there.

Hans Pluijgers: Okay. And one last question. Follow-up question on the Middle East. I hear what you're saying with respect to remained selective. That's in line with what you already previous [inaudible]. Also, you previously indicated that you expect that the top line to stabilise around mid of this year and then maybe slowly or to see some improvements as of the second half. Is that still really what you're looking for or did I misunderstand you in the past?

Peter Oosterveer: No, that's still the trend we're looking for, Hans.

Hans Pluijgers: Okay. Thanks very much.

Operator: The next question, Mr Ronald Evers, ABN AMRO Bank. Go ahead please sir.

Ronald Evers (ABN AMRO): All right. Thank you very much for your time. Ronald Evers, ABN AMRO Bank. I've got a few questions. First of all, congrats on the great set of results. My first question is related to the outflows in other working capital. I wonder if you can give me some more colour there.

The second question is related, indeed, to what Hans already said, to the bit steeper increase in gross revenue spheres versus the net revenues. I think [inaudible] go to our analysts, ask that question at the Q4 results as well. But is it still the case that there is not more risk taken in those contracts. So that the Arcadis is basically not more acting as a contractor than it was in the past, so not taking more risk on those contracts.

My last question is related to ALEN. I see the guidance is unchanged there but you expect to be cash positive in the – cash generating in the second half of 2019. I also noticed that there is some debt basically which is basically coming to an end – need to be refinanced in the course of 2019. In a worst case scenario, if ALEN is not being sold in the second half of 2019, do you think there was a good possibility that the debt is going to be refinanced in the joint venture without providing more guarantees? Or is there a risk that Arcadis need to take that depth on its own balance sheet? That is it, basically. Thank you.

Sarah Kuijlaars: Good morning Ronald. [Inaudible] working capital, so indeed, if you recall, in Q4 when we generated the very strong free cash flow, we did highlight that was supported by – helped by the other working capital. And of course, if it helps you in Q4, some of it will reverse in Q1. We also highlighted there were some payables in the area of VAT associated with the increased revenue, and also some accrued bonuses which we've paid in Q1.

But I think it's worth highlighting that, yes, it was a negative free cash flow [inaudible] but less negative than 2018 and also 2017, so there is some seasonality there.

The next one was on the gross revenue to net revenue. The example of Chicago is a good example in that case, where indeed we picked up that managing partner role. But it doesn't imply an increased risk. And indeed some of these material projects, particularly in the US, do have these gross versus net revenue difference, which is part of our ongoing business.

Ronald Evers: Cool. Thank you.

Sarah Kuijlaars: And then on the ALEN refinancing, so indeed the associate does have some third-party debt, which it is in the process of refinancing and all indications suggest that they will proceed to do that without any change of structure in the coming months.

Ronald Evers: Thank you very much indeed.

Peter Oosterveer: Roland, if I could just ask what Sarah said on the second point, you know, the difference between gross and net, and has been asked before, but let me reassure you that we – and I'm quite familiar with large risk projects. Not so much in my role in Arcadis but more so in previous roles and previous companies, that we have no intent whatsoever to engage in more risky contracts across the board anywhere in the world. It is more the result of what sort of role do we have on a particular project. And the one in Chicago is a really good example but there's no intent whatsoever for us to take on high-risk contracts.

Ronald Evers: All right. Thank you very much for your clearer explanation.

Operator: The next question is from Quirijn Mulder, ING. Go ahead please, sir.

Quirijn Mulder (ING): Yeah. Good morning everyone. A couple of questions from my side. Maybe you can give me some flavour on the profitability lines per division or per region, in the first quarter, to give an idea about what's the development, year on year. So for example, what is the US, what is…? That will be very helpful for us to make.

Then with regards to the [inaudible] story, you speaking – okay, the 20% is probably in the way. So what about the last 30%? Is that there's still not being negotiated? What's going on there? Maybe you can elaborate on that somewhat more.

Then you speak on your working capital discussion about enforced accountability on cash collection. Does it mean you have taken more and more measures to – for everyone in order to get the cash on time? Is that new measures taken or is that more the old policy which is being enforced now more than before? Maybe you can elaborate on that as well. That are my first questions, thank you.

Sarah Kuijlaars: Morning, Quirijn. So maybe starting with the profitability. I think –so all segments are showing an improved profitability, margin profitability, compared to this time last year. It's worth highlighting the really strong performance on North America, from not only a revenue point of view but also the operating margin. Another highlight is on the Middle East which, because of that selectivity, is showing to a stronger margin. And then I think maybe finally, on Australia, so although revenue is down, the operating margin continues to be one of the highest in the group.

Quirijn Mulder: Yeah. What about Brazil, for example? It is also higher.

Sarah Kuijlaars: Yeah, no absolutely. It's also higher –

Quirijn Mulder: [Inaudible] it's already positive then.

Peter Oosterveer: Yeah it's higher because it's positive, that's a fact. But I think I said by you comparing this quarter by the last quarter, you pretty much – regions show high profitability than this time around last year. Okay?

Let me take the second one, on the gas production. So where are we with the last 30%? So you're right about that. We increased the volume under contract from 30% to 50% with options for the next 20% with one of their two buyers we have on the first 50%. And these options should materialise relatively quickly in the next couple of months. And in the meantime, of course, we are looking at other customers for the remaining gas but we're also looking at whether a potential buyer of the asset might actually be interested in having that gas available for themselves. As you will appreciate, as you start to look for potential buyers, you start with a long list of companies which have different characteristics. And included on the list are also-companies who have potential internal use for the gas. And so we don't want to necessarily wait for that to happen. So we are, as the number one priority, still looking to sell that remaining 30% as well. But we're not excluding an opportunity whereby the buyer of the asset would actually say, 'You know what? Y0u don't need to sell that 30% because I have internal use for the gas as well.' That's just a second option we have available to ourselves as well.

Quirijn Mulder: Okay.

Sarah Kuijlaars: And then on the cash collection, so I think it's – so we're taking many steps here. So I think on one side, absolutely, it's the – an aligned set of KPIs through the organisation from the executive leadership team downwards. Of course, that's helped. I think it's the reinforcement of regular monthly calls by region, discussing by client, where the issues are and who's going to follow up. And I think that's – bringing that regular call, that regular enforcement, using a really standard sets of KPIs, whether we're talking Australia or Brazil, is reinforcing the behaviour shifts that we believe is necessary to really embed this and improve this behaviour – or improve the receivable profile going forward.

Peter Oosterveer: Specifically there that now, more than in the past, more people are, in terms of the incentives, depending on cash collection than in the past.

Quirijn Mulder: Can you give me a number on that, or difference? Is it goes up from 1,000-2,000 people, or…?

Peter Oosterveer: No, it's a significant increase.

Quirijn Mulder: Okay. Then my final question is about the working capital. So over 120 days if you look at the end of last year was in the €27 million, you go to 106. That is exactly the number, the €21 million related to the interims[?]. The collection of the interest payment. Was there underlying no improvement further? Or can you maybe elaborate on that, what was the development there over – for the over 120 days [inaudible]?

Sarah Kuijlaars: Yes, [inaudible]. So the – part of the US insurance case was over 120 days but also part of it was on the 31-120 days. Yeah. So in addition to that money coming in, we continue to see improvement on that long overdue, including in the Middle East. And we continue to see progress there.

Quirijn Mulder: Okay. Thank you.

Operator: For any additional questions or remarks, you can still press star one. So for any additional questions or remarks, star one. Go ahead please. There is an additional question coming up from Quirijn Mulder, ING. Go ahead sir.

Quirijn Mulder (ING): Yeah. My question is about [inaudible]. Maybe you can elaborate on that, on the news this week, of getting back to the project to the government in that sense. Has it impact on your other portfolio or not?

Peter Oosterveer: No. Sorry, go ahead.

Quirijn Mulder: And the second question is about you see a very strong grows in Environment in the US. Are they new clients or are they old clients, especially in the oil and gas, returning to you after the collapse in oil price? Is there any – can you give me some flavour on that development there?

Peter Oosterveer: Okay. On [inaudible] 827, we obviously have seen the news as well. We – as Arcadis is working both in the conceptual phase of this project, the cancellation of the project you have seen is obviously the combination of Van Ort[?] and Baum[?]. We were supposed – or were hoping to be able to play a role in that phase which is their responsibility. But we have not taken an award on that or an order on that. So the cancellation does not mean for us that we would have to take anything out of backlog. It is simply a lost opportunity. But then we are expected to replace it with other opportunities. So it's not having an impact on n our numbers of what we have in backlog.

Quirijn Mulder: Okay. Thank you.

Peter Oosterveer: And then [inaudible], yeah, good observation and Environment in the US is it's actually still growing strong, very strong. And it's still going strong for oil and gas clients as well. In fact, for very substantial oil and gas clients, we have won a substantial amount of work. So it is a combination of existing clients, new clients and it does, of course, still include oil and gas clients as well. And there's no, I would say, negative impact from the oil price on the amount of work we get from oil and gas clients.

Quirijn Mulder: Okay. Thank you. So but that is [inaudible] to say, if you speak about gross in the Environment, that is what this is still what this is anyway. If you look at the numbers, organic growth for America is 8%. Environment is doing better – it must be double digit in my view.

Peter Oosterveer: Environment contributed but water contributed as well. And in fact, infrastructure contributed as well. But given the size of our business in absolute numbers, the biggest contribution came from Environment.

Quirijn Mulder: Thank you. Thank you very much.

Operator: Next question from Hans Pluijgers, Kepler Cheuvreux. Go ahead sir.

Hans Pluijgers (Kepler Cheuvreux): Yes. Good morning. Another question from my side. For IFRS 16, you give some indications for the Q1 numbers. And based upon as you can see in principle, that there would be likely a negative impact on the bottom line as EBITDA impact is plus one but the also net finance expenses also an increase. Or should I read it plus three for net finance expenses as a positive impact? So what's the impact on the net in the first quarter and what's – [inaudible] the impact a little bit some feeling on the full year.

Sarah Kuijlaars: Yeah, so I think I'll take that question. So indeed the net income overall impact is minus €2 million. So it's that plus €1 million of the EBITDA level and the minus €3 million that finance expense. And why this is, is that – so we're applying the IFRS 16 through a modified, retrospective approach, which means there's a bit of front loading so actually changes the timing of the P&L impact.

Most of the IFRS 16 impact is on our real estate, on the offices. And so that's 90% of the impact around the world. And, of course, it's – ACUTA[?] will give the full breakdown. And if you want it earlier, we're very happy to provide that earlier as well.

Hans Pluijgers: Okay. Thanks.

Operator: Next question from Maarten Verbeek, The IDEA!. Go ahead please.

Maarten Verbeek (The IDEA!): Good morning. It's Maarten from The IDEA!. Two questions. First of all, on ALEN once again, at the end of last year you already had 35% signed and there was negotiation for an additional 35%. And [inaudible] one, apparently the client has only taken 15% and change the other 20% to an option. Could you provide more colour why he did that?

And secondly, Middle East, you have predicted that you expect revenues to bottom out last year. Your backlog was minus 57%. Can you say something about the development of this backlog in the Middle East? Thank you.

Peter Oosterveer: Let me take the first question on ALEN, on the 35%. I thought that we actually – and we should probably go back to our press release but I think we communicates 30% which was under the contract initially, and another 20% being added to that, which brings it to 50%.

Maarten Verbeek: Sorry to interrupt you, but if I read the annual report, it states a 35%.

Peter Oosterveer: Okay. Well, that might well be in [inaudible] and what we communicated to – in the press release. What we currently have under contract, including the options, is really close to 70% of the total capacity. So whether the breakdown is 35% or 30%, I would have to double check that but we have 70% as – including 20% as an option under contracts. Did that answer the question, Martin?

Maarten Verbeek: Not completely but otherwise we can take it offline.

Peter Oosterveer: No, but please ask for clarification.

Maarten Verbeek: And then the Middle East please.

Sarah Kuijlaars: Yes, indeed, the [inaudible] leases, you've got that very negative backlog [inaudible] year on year. So that's all part of how we resettle the footprints. But they are now indeed winning new work in line with the new strategy, very much on the shift in focus to the programme management. So we see that as being adequate for a flatter revenue going forward.

Maarten Verbeek: That you have a decline in the [inaudible], I can understand. But if you look at yearend, what do you see in the Middle East happening in the first quarter? That's a plus?

Sarah Kuijlaars: I didn't get that last question.

Maarten Verbeek: Last year the Middle East was minus 57, but that was year on year on the back of the strategic reorganization. And that in Q1, the order book will be down versus Q1 last year. I can understand that as well. But can you give some colour about the development. What happened as of the start of the year in the Middle East with the backlog? Is it up or down or…?

Sarah Kuijlaars: It's relatively flat, [inaudible] flat.

Maarten Verbeek: Thank you.

Peter Oosterveer: Maarten, this is Peter again. I understand what's caused confusion because we, indeed, in the full-year results said that we have a 35% of the volumes signed and another 35% then under negotiation. I would have to go back to – and then that breaks – that makes it to 70%. I would have to go back and run the exact calculation but the fact of the matter is that in total we have 70% in principle under contracts. 20% of that 70% is an option. So, in the next couple of months, these options will either become – they'd been pulled by the customer and use the gas, or we'd have to look for other customers. But it's 70% under contract with 20% of the 70% on the second customer under option. So it's still makes for the same total but I see now what caused the confusion.

Maarten Verbeek: Okay, thank you.

Operator: Next question is from Quirijn Mulder, ING. Go ahead sir.

Quirijn Mulder (ING): Two questions. On the gas, I thought it would start in the first quarter. So maybe you can elaborate on that as we had in the [inaudible] it would produce. You were able to produce somewhere in the first quarter, it would start. Maybe that's a discussion point. I think the other question is about Asia. If you speak about China, do you speak about the mainland or do you speak about the greater China? And what is the situation, for example, in Hong Kong, Singapore and Malaysia? Is there any improvements visible or is that somewhat in the doldrums relative to other areas?

Peter Oosterveer: Yeah. Let me let me take the first one. And so I guess just to validate that I heard it correctly, your question was that on the gas side for the clean energy assets, we said in the first quarter we would start production?

Quirijn Mulder: Yeah. You would start production and I understand it is only in the second quarter then?

Peter Oosterveer: Yes, that's correct. So I'm trying to simplify it and not make it too complicated but if I take the two customers we now have under contract, then we probably explained but this could go into detail. So I want to warn you that on the very first contract for the roughly 30% or 35% that we would provide that gas to the customer's facility and that we needed to make a hub connection at the facility. And the second volume of gas, which now brings it to the 50% and ultimately potentially to the 70%, that is gas that goes by truck, and needs a connection at the customer's facility.

On that first 30-some percent, we had expected that the facility, at the client's side, would be ready towards the end of the first quarter to receive their gas. That is not the case. So there is a slight delay in making that hub connection available. On the other [inaudible] handle on this second 35%, the percentage which gets you to the 70%, that is a situation whereby we do not need that have hub connection, whereby we would invoice the client as soon as the truck would leave the facility.

So you're right in that we had expected on that first contract where the hub facility is needed that we would be able deliver gas towards the end of the first quarter.

Quirijn Mulder: Okay. Thank you.

Peter Oosterveer: And then the question was on China and then taking it a little broader, what is the situation in various parts of the region. Just as a general comment, in spite of the fact that that we had to take some measures in Asia to provide higher focus, biggest selectivity and ultimately depart from some non-performing regions, I'm actually pretty pleased to see that we still had revenue growth in Asia. As we said in the press release, that was largely driven by China, which in this definition is mainland China, not Hong Kong.

You also asked what else do we see in the region as a whole. I think our situation in the region is largely the same in that our focus areas remain Hong Kong, mainland China, Singapore Malaysia and the Philippines. So you can safely assume that as we go forward, we will continue to see the majority of our business coming from these five countries.

Quirijn Mulder: Okay. So not Singapore?

Peter Oosterveer: It includes Singapore.

Quirijn Mulder: Okay, sorry I missed it.

Peter Oosterveer: Yeah, so it's mainland China, Hong Kong, Singapore, Malaysia and the Philippines.

Quirijn Mulder: Okay, perfect. And the rest of Indonesia, Vietnam, etc., you're going to – probably to close down or [inaudible]?

Peter Oosterveer: Yeah, we're not quite at the point where we can specifically say what we do in these other places because of us working through solutions to be created in those places. But just let me just leave it by saying that that our focus is largely on the five countries I've just mentioned.

Quirijn Mulder: Okay, perfect. Excellent.

Operator: The next question is from Ronald Evers, ABN AMRO bank. Go ahead sir.

Ronald Evers (ABN AMRO): Thank you very much again. So two last minor questions also related to ALEN in Brazil. Just for my information, obviously the write-down taken in Q3 and the provision taken leaves the financial exposure to €59 million, if I'm right. Is it true that so far that there has not been a real cash-out being recognised, right? We are only going to see that if ALEN is being sold, is that – that's question one.

And my second question is obviously it is expected ALEN to be cash generative positive in the second half of 2019. Could you give me a bit of colour, let's say in an ideal situation, what, yeah, let's say gas generation could ALEN actually generate in a perfect year, let's say, in 2021 or whatever? So if 100% is being sold, what's realistic, to get a bit of a feeling? Thank you.

Sarah Kuijlaars: On your first question about exposure. So the net exposure has increased slightly, so indeed it was €59 million at the end of the year. We have contributed a further shareholder loan [inaudible] exposure that €64 million at the end of March. And, indeed, looking ahead, we do hope it to move to the positive territory in the second half year and that they are small positive numbers. And, of course, at the moment, we're not in a position to give any a longer-term view on the potential sell value.

Ronald Evers: All right. All right. I appreciate it. Thank you very much indeed for your questions – for answering my questions.

Operator: There are no further questions at the moment sir. Please proceed.

Peter Oosterveer: Okay.

Operator: There are no further questions, sir.

Peter Oosterveer: Okay. If there are no further questions, then I thank all participants for participating in this call. And I thank you again for listening. Thank you.

[END OF TRANSCRIPT]