2018 Full Year Results

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Jurgen Pullens: Good morning, everyone. My name is Jurgen Pullens, Director of Investor Relations for Arcadis. I'd like to welcome you to the Arcadis analyst conference call and webcast, and we are here to discuss the company's results for the full year and the fourth quarter, which were released this morning.

With us are our CEO, Peter Oosterveer, and our CFO, Sarah Kuijlaars. We will start with a short presentation and then we will follow up with a Q&A. You all received the presentation this morning, but it is also available through the website: arcadis.com/investors.

Just a few words about the 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. We'd like to call your attention to the risk related to these statements, which are more fully described in the press release.

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

Peter Oosterveer: Thanks, Jurgen, and also on my behalf, welcome to everyone here in person as well as obviously people on the webcast. What we're going to do is, as Jurgen said, we are going to offer some brief remarks and then of course you'll have the opportunity to ask any questions.

Let me just offer a couple of real opening comments and provide a little bit of context. In the presentation today, we're obviously going to refer back to the press release and provide you with an update on the most significant items relative to the fourth quarter, but we are also deliberately making an effort to make a connection between our performance over 2018 and the commitments we made in late 2017, when we had the Capital Markets Day, many of you were there. And as we presented to you our new strategy in late November of 2017, we also made some commitments to you and others in the market about our performance. And we felt that it would be prudent and transparent to – now that we're a little more than a year into this journey, allow you an insight in how we rank and rate our own performance, to highlight where we believe that we've made progress and have created improvements, but to also highlight where we believe further improvements are necessary.

So let me just start with our performance at a glance, at a relatively high level, and needless to say that we will provide more detail as we go through the rest of the presentation. We're pleased with the strong performance in what we describe as our key markets, sometimes also described as the mature markets. Particularly North America, Continental Europe, the UK and Australia. And what you will see here in a little while is that by and large when you look at the performance in these key markets, we are already meeting the commitments we made to all of you in the Capital Markets Day. So that's pleasing.

Also pleasing is to see that overall for Arcadis in 2018, we created net revenue growth of about 3%. The operating margin is not quite where we wanted to be at 7.3%, but as you might've seen from the release, there has been an impact from the regions which are not necessarily performing at the level we expect them to perform, and that's most notably Asia and Middle East. And the impact of the underperformance in these regions is about 0.8%.

We are taking firm and specific measures in these two regions to turn around the performance and I'm going to give you some specific examples of those. In order to do what we set out to do and in order to also be prudent on our accounting side, we had to take a goodwill impairment of about 40 million, which is largely driven by the Middle East.

I'm going to give you obviously an update on our non-clean energy – non-core clear energy assets in Brazil. In short, the summary would be that we've made progress and that we have started the preparation for divestment of all the assets, and our intent is still to sell these assets throughout 2019.

I think the significant positive news at the end of the day, by the time you add up all the bits and pieces, is that we have significantly improved our balance sheet, so our financial housekeeping is I think definitely noteworthy to mention, and I have no doubt that Sarah will speak about it at length here momentarily.

And that has allowed us to propose to the shareholders to maintain the dividend at 47 cents a share for 2018.

So, let me get into the details a little deeper, and then I'm making a distinction between the key markets, which reflects just short of 85% of our total revenue, and the markets which we have described as improvement areas and that is specifically the Middle East, Asia, and to a lesser extent, Latin America, and I will further detail that here in a minute.

When you look at our performance in the key markets, the operating EBITDA is at 8.7, already within the bracket we have committed for 2020. As you recall from the Capital Markets Day, we committed by 2022 to have an operating EBITDA between 8.5 and 9.5 and it's therefore pleasing to see that in the key markets, again reflecting about 85% of the total revenue, we have already gotten to that level.

In addition, we've also improved our DSO in those key markets, both for the company as a whole, as you might have seen from the presentation, it's 80 days now, which is lower than what we have committed to do, 85 for the company as a whole.

Good organic net revenue growth in those key markets as well, so by and large, looking at the key markets, I am pleased with the performance and the progress we've made. Part of that progress has also been created by the measures we took, such as a stronger focus on making sure that we pick the right clients, the right opportunities, and also a better focus on executing our projects in a more profitable way.

We still have areas for improvement, as I already said before. They are in the Middle East, Asia and Latin America and you can see what we have been able to do there. I'm going to probably expand on that later to give you a little bit of additional colour on each of those regions, but clearly these are the regions which, through the measures we have identified, should allow us to turn the performance around throughout this year.

Breaking it down even further, so here's an overview of the key markets and the performance in our key markets and more specifically what we believe is driving that strong performance. I'm not going to read each and every detail for you. You can do that for yourself. But I'm picking up a couple of things real quick.

Starting in North America, for those of you been following our company for some time, you'll probably remember the days where North America was seen as a problem child and I can safely say that that's no longer the case. The performance continued to be very strong, continues to improve compared to the year prior to 2018, so strong performance. And as you often see in our type of business, if you perform well, if you offer opportunities, if you create growth, then other things will fall into place as well. And the other things are for instance the voluntary turnover, which is now fairly low for a US market, below 10%; the engagement of our employees which is something we measure is up as well. So just a lot of things pointing in the right direction.

Continental Europe, another contributor to the strong performance through 2018, needless to say that we benefit from the strong position we have in particularly the Netherlands, the strong position we have in infrastructure. And increasingly we see in these markets in Continental Europe but actually outside Continental Europe as well, that digital applications and digital technologies become part of what we offer to our clients. That is for instance also the case in the UK. In spite of all the looming uncertainty around Brexit, our performance in the UK in 2018 has been strong. There we also benefit from an increased capability through the acquisition of SEAMS, a relatively small acquisition we did in 2018 which is helping us offering data analytics capabilities to our clients, particularly around water and infrastructure.

In Australia, if I wanted to single out a particular region which pretty much leads the pack and performs on pretty much again all our criteria, then I would have to single out Australia. You could say a captive market, but it is a really good market for us and our performance continued to be strong, and in fact over last year was an improvement compared to 2017.

And lastly CallisonRTKL, obviously you are aware that in July we made the decision to rethink CallisonRTKL within Arcadis. The time prior to that decision was a time of anxiety, ambiguity, uncertainty for employees. That is certainly also reflected in the turnover which is higher than we wanted to see. So that's something which is clearly an area of attention for our management team, and our management team has actually also decided – the management team at CallisonRTKL – to streamline the organisational structure and to move it into more of a regional structure.

So, CallisonRTKL, always been a strong contributor to our performance and we have the expectation that with the certainty we're now providing and have provided throughout last year with the decision to retain it, that we would see the performance contribute again to the overall portfolio.

Then I have to also obviously talk about those regions which are not meeting our expectations yet, where we have taken a number of actions to turn that performance around. In the Middle East you will recall that in the middle of last year, shortly after the middle of last year, we informed you that we had completed our portfolio analysis. At that time, we could not be very specific about the impact it would have on services and on countries. The reason was that we first wanted to inform our clients about our decisions, that we wanted to inform our employees about our decisions, and we also wanted to be sure that in informing our clients, we would try to get as much of the payments we were still owed in those countries before making that decision visible to all of the people in the region.

We have now communicated those decisions. We have been able to get most of the outstanding payments resolved. And the decision is that we are focusing on much less countries now. We are not working in Bahrain anymore, we are not working in Oman, and we are also not performing lump sum D&E services anymore, particularly in Saudi Arabia, which has been a problem child for us in the past.

We're still doing certain service in Saudi Arabia, so it's not an entire pull-out of Saudi Arabia, but they're very, very focused on the higher-value services such as programme management and cost management.

So, measures taken. In going through all these activities and all of these decisions we've also critically looked at the projects we still have in our portfolio, and part of what we did was taking a write-off on these projects throughout the remainder of 2018.

Then in Asia, I think some of you through the conversations we had between the last time we were here in July of last year and this time, giving you an update on some changes we made on leadership. These changes have now all been put in place. We have somebody responsible for Asia and Australia as a whole, and that somebody is the former CEO of Australia. The person who was, with his team, responsible for that outstanding performance and that growth in Australia, and Greg Steele is now responsible for both Asia and Australia.

And we also appointed a new CEO in Asia. Somebody from externally, somebody with a very strong operational focus. He started on the 1st of September and has used the remainder of the year to really go through the portfolio to make sure that we are aware of all the issues we could potentially encounter.

So it has been a disappointing year in Asia for us. It's still a profitable year in Asia, but still a disappointing year. It didn't meet our expectations. But our expectation also is that, going forward, through a number of additional decisions which I'm not able to completely reveal to you because we're going through the same process in Asia as we went through in the Middle East by first informing clients, informing our own employees about certain decisions to pull out of certain services and to pull out of certain countries.

So, we know what our decisions are. We have made the decisions, it's just going through the process now, which is the diligence to inform all the important stakeholders, clients and employees.

I've included Latin America here as well. Not because we are and have identified additional measures. Most of the measures which were already identified in the past have been put in place. You will recall that at a point in time not too long ago, Brazil was an important contributor to Arcadis' portfolio, with over 3,000 people. Over time, over the last couple of years, we've reduced that to about 850 in Brazil, so a significant reduction. We expect to now benefit from a more stable environment post-elections, the elections have brought certainty, and an early sign of what could well be an improvement throughout the year is a strong order intake in the last quarter of the year.

So, let me give you an update on the non-core clean energy assets in Brazil, also known as ALEN. We've decided to break it down into two different types of assets. There is one gas to gas plant, which is the plant you see at the top of the slide, the left-hand corner. And then there's two large gas to electricity facilities. You all recall that the gas to gas plant was completed, and has been completed since July of last year, that we were in negotiation with offtakers for the gas. We now have signed contracts in place for 35% of that volume and we are in what we consider to be final negotiations for the other 35% of the total volume.

And then of course we'd still like to sell the remaining 30%, and we have the opportunity to attract either one, two additional buyers but we also have the opportunity to potentially add volume to the buyers we have are already secured. So that's something we will – and plan to decide here throughout 2019.

On the gas to power plant, the story is different. Two facilities, the largest one which is down at the bottom here, Nova Iguaçu is completed, is in operation, is currently producing about 60% of the total capacity. And that total capacity by the time we ramp it up to 100% is under contract, so we don't need to sign any contracts, find any offtakers. That contract is in place.

And then the last plant, São Gonçalo, is being constructed as we speak, or assembled as this slide shows. The expectation is that we will get it operational in the course of 2019. And that also on the plant we have the production already under contract, so the electricity which we will produce through this plant is under contract, so also there we do not need to find buyers for the electricity we're going to produce.

We decided to also provide you with a summary of the financial side of it. This shouldn't necessarily be news to you because most of this was already included in the update we provided throughout the third quarter.

Our net exposure is €59 million. We have a provision for about €28 million for an expected credit loss, and the off-balance sheet guarantee amounts to €87 million. And again, this is something we have communicated before. The net investment at this point in time is valued at zero. We have €50 million of loans from external lenders which will have to be refinanced throughout this year. We've also had an independent party verify our business case in the fourth quarter and the verification validated our position. And then we still expect to see a loss in the first half of the year, but be breakeven throughout the second part of the year.

So let me now take you back to the commitments we made in the Capital Markets Day in a more specific way. For those of you who had seen that presentation or were either present during the Capital Markets Day, this is exactly what we presented. It includes our three strategic pillars: people and culture, innovation and growth, and focus on performance. And it also includes the commitments we made throughout that Capital Markets Day presentation. And we felt that it would be appropriate to just give you an indication as to how we see that the journey is going, where we feel like we've made adequate progress and that is shown in the green colour, and to also indicate where more progress needs to be made in order to satisfy ourselves and to also ultimately of course satisfy you.

So, just picking out a couple of things real quick. Our engagement score is up, which is positive because the only asset we have are our people, and if our people are engaged, if our people feel ownership for the result, they tend to obviously perform better and will be better in the position to satisfy our clients.

Our voluntary staff turnover is not down yet, which is clearly a disappointment, but as I commented before, it tends to go hand in hand with performance. Good performance and good opportunities for people. The most significant example of that, as I mentioned before, is North America, where we performed really well. We grow the business, we provide opportunities for people and the voluntary turnover is coming down.

On innovation and growth, probably one of the most significant things there is first of all our growth, our organic growth. And then maybe even more specific, as a subset of that, the growth we have been able to create for our key clients. We committed that we would grow at least at GDP level and that we would do double of the GDP growth for our key clients, and we're actually exceeding that at this point in time, which supports the other action we have taken, which is to focus on lesser clients. That's why we identified about 250 key clients, they are both global as well as regional key clients, to make sure that we continue to serve those clients well and in fact trying to do more for these clients and not let ourselves be distracted by focusing on other clients who are not necessarily contributing in a meaningful way to our financial results.

Innovation. We're making really good progress on digitising our services, changing the business models we offer to our clients. The one I'd like to mention here is the one around being seen by an external party as a market leader in providing digital EHS services, environment, health and safety services. That simply is the result of an acquisition we did in 2017. You might recall that in 2017, we did a relatively small acquisition, a company called E2 ManageTech, and the growth we have seen through that company has been really, really strong, and the recognition as a market leader is, I think, a really good reflection of that position and of that growth.

And lastly on the more financial side, I'm not going to steal Sarah's thunder, but we have in summary improved, significantly improved, our balance sheet, but we still have work to do on the margin side. And of course, we also have an improvement left on the return on invested capital.

So with that, I'm turning it over to Sarah.

Sarah Kuijlaars: Thank you, Peter. Good morning everyone. So maybe let's first start with a project, close to home here in the Netherlands, and of course this is a great example of where Arcadis does what it does really well. Yeah? So, this is a vertical forest of forest and bushes that are absorbing carbon dioxide and emitting oxygen and really improving the quality of life.

If we turn now to our key metrics. As Peter's highlighted, we've shown organic growth in our revenue, so revenue has been strong, and that's translated to an EBITA of €162 million, which is level compared to last year, but it's worth highlighting there's a fair amount of foreign exchange headwinds there. So it's great to see that we've maintained that.

Our operating EBITA has fallen a little to 177, but this has been really impacted by some project write-offs and provisions taken in the Middle East and Asia, which as Pete has highlighted are areas that we're really trying to ringfence and address in the near future.

Connected to that, we've got the operating EBITA margin of 7.3%, but that's coming through and I think it's then really great to highlight the very strong free cash flow of €149 million. €149 million, big step forward from the previous year.

Of course, we've managed to do that by improving our net working capital position, an improvement to 15.1%. And we'll obviously talk a bit more later on about the breakdown of that, but the 15.1% and an improvement of DSO days across the globe, which has really helped bring the cash in.

Of course that has moved then to a stronger balance sheet, a stronger debt position, which sits at €342 million, and of course that has helped to improve our debt coverage ratios.

Backlog net revenues is flat at €2 billion. There is some decline in organic growth, but I think then it comes back to our selectivity going forward, and stripping out on the Middle East, our organic backlog is positive at 2%.

If we move forward now to slide 12 and look at our quarter-by-quarter progression, here we see the net revenue progression and the growth quarter by quarter, and we're seeing strong growth in our key markets. And it's highlighting again that we've got really strong margins in those key markets. Obviously, the key markets US, UK, Continental Europe and Australia, more to be done in the Middle East and Asia, and that of course, when you take the whole portfolio, it drags down that operating EBITA margin but really identifies the areas we're going to focus further on in 2019.

Here if we flow through on our net income statement, we start obviously with an improvement in our EBITDA at €204 million. The depreciation is slightly higher, to get to an EBITA of 1.62, as I say, flat with last year. And then we now see the impact of the goodwill impairment of 40 million, the majority of which comes from the Middle East, comes from relooking at our portfolio and our forward-looking plans and the impact that has on the free cash flows, and of course the goodwill we stand on our books, to give us an EBIT of 98.

Our taxes are slightly higher. If you recall in 2017, there was a one-off tax benefit, so year-over-year, there's a higher tax rate. And there we see in the result from the associates, the ALEN impairment which we communicated in Q3 of 53 million.

So, this does lead to a net loss when we take into account those two non-cash movements. However our net income from operations is healthy and as highlighted earlier, given that the NIFO is healthy, our balance sheet has improved, our net debt is down and our confidence looking forward, we've retained our proposal for 47 cents for dividend.

So now I want to focus on our improvement in our net working capital. I think it's really positive to see first the focus in the organisation on this, and demonstrating that we are addressing some of this aged debt. And the improvement to the end of the year was then the icing on the cake was the 21 million that arrived on working day six in January 2019, which of course would have improved this figure further. I think it's also worth highlighting that where we have shown improvement is the working capital, so this is really where we are pushing work – work in progress through the organisation into receivables and then getting paid.

So, concluding, a working capital of 15.1% which is well within the strategic framework we set out in 2020.

So now we see the flow quarter to quarter. A really strong improvement since Q2 quarter-on-quarter, and as I said, the net working capital down at 15.1%, well below our 17%, and the DSO outstanding reduced down to 80 days, well within our strategic framework of 85 days. And again I think it's worth highlighting that some of those key markets beyond that, and then calling out Australia which is best-in-class in the group, not only in terms of results but also in terms of how they manage DSO.

I should highlight that we are not done yet. This will continue to be a really important focus there for 2019. We have showed we can do it and I think the challenge now is really how do we embed this into business as usual for all 27,000 Arcadians.

So, here we see the impact of our EBITDA and the working capital, and how that generates the cash. So we've highlighted we've got the positive improvement in net working capital. There was also a positive improvement in the other working capital. Some of these are more one-off, caused by less prepayments on IT, some of them are higher accruals, and also some are

VAT payables coming through. But of course, a positive impact in our end-year result. So a highlight of the tax paid is slightly higher, and our interest paid is relatively flat, so our cash flow from operating activities is 214, and then with the CAPEX it comes down to the 149, the strong cash flow I highlighted earlier.

There is an increase in capital expenditure. Part of that is the investment in Arcadis Way in our new ERP system. And in parallel, we are continuing to consolidate our offices around the globe, which requires investment. We definitely plan to target a lower figure for 2019 for CAPEX, under 50 million I think is more reasonable.

So, when we you pull these various pieces of the puzzle together, the strong cash flow of 149, bringing down lower the debt, which then really improves our covenant ratios. A covenant ratio of two by the end of the year and the year end point is 1.7. Again, a very important step forward to demonstrating we are delivering the metrics as set out in the strategic framework.

In January, we also concluded our refinancing, €200 million with our key core relationship banks. It was oversubscribed. It was a bit of a hectic January but everything is signed and that really gives us a foundation of stability going forwards with very healthy and diversified facilities, and a significant amount of – you know, there’s 915 of committed credit facilities which gives us more than enough liquidity moving forward.

It’s worth highlighting that our banks were very keen to ensure that we had some sustainability KPIs, of course that’s really core to us as well, so that gives us potential to manage those interest rates when we continue to deliver our sustainability route forward.

So, if we now move to the segments. I think it’s worth highlighting the project example here, so where we’ve detailed a design for waste water management for a private client, of course there is lot of work for public clients in this area as well. And I think particularly in the US, as Peter highlighted, it’s the – as we grow in our capability in digital and that engagement with clients providing that digital roadmap and that capability is allowing us to win projects with a range of clients from financial institutions to global industrials.

So here we see a strong revenue growth in North America of 6%, and its worth highlighting if you think that’s a build on 2017 but also a significant build on 2016. A slight decline in Latin America, but in Q4 it’s positive and absolutely they’re well set up to benefit from hopefully more stability in Brazil but also in LatAm going into 2019.

The highlight of course is a North America operating at 8.8% operating margin, with strong results across water and environment. Latin America came out in the year at a 1 million loss. A significant improvement compared to 2017 and 2016 and again, Q4 was their best quarter yet so a positive trajectory, and it’s great to see that both regions have got a strong backlog which sets us off well for 2019.

Turning to the Europe and the Middle East, let’s start with the UK and the project here again a digital one, digital data capture for the Lower Thames Crossing. Also with the SEAMS acquisition last year we’ve manage to position ourselves well with some of the water utility companies, so where those companies are managing ageing infrastructure, they really benefit from our enterprise decision analysts, that then really helps us work through them and of course the water utilities have also got pressure from the regulators about how they are addressing their sustainability and their environmental requirements, so we’re well-placed to support them.

The UK showed a very positive organic growth of 13% and a strong margin. On Continental Europe, the revenue growth was slightly lower at 3% but a strong operating EBITA margin of 8.4% and of course led by our home country, the Netherlands.

The Middle East, a bit of a different story there. So, following the strategic reorientation, focus on clients, which of course then leads to an organic net revenue decline. And the margin has been impacted by certain write-offs and provisions on a couple of more material projects in the Middle East which we took in Q4.

So backlog looks strong, particularly strong in the UK, Europe, and Middle East, this is by choice, so we're being really explicit and specific about who we deal with moving forward.

So now turning to Asia Pacific. Here, the project in Australia where we played a very prominent role in two metro projects in Australia which are multi-billion-dollar infrastructure projects in the metro. It involved five stations and a tunnel and then the one in – we've also used some –really focusing on the customer engagement, so customer-centric, using virtual reality which apparently was a first over there and was very well received by the client.

So on Australia, strong revenue growth and an outstanding EBITA margin at 11.7%, and an outstanding DSO.

Asia is under a bit more pressure. We've got more to do in Asia to manage the revenue and the margin, but I think there's a lot of opportunity now with the new leadership in place to focus on what we do well and where we do it well and so that will enable us for Asia to be even stronger in 2019.

Turning now to CallisonRTKL, and a project example here in Berlin. So I think it's very heartening and positive to see the revenue growth back positive in the second half of the year, with an EBITA of 19 against 24 from last year. It's a healthy margin, but it's been healthier obviously, and now we've got the stability for the new leadership team, refreshed and very focused on delivering that organic growth and really delivering in line with their new strategy.

And now I hand back to Peter.

Peter Oosterveer: Thank you. Okay. Let me now wrap it up with an insight in how we think that we will continue to deliver sustainable value with an emphasis on sustainable financial value. There is other values we will provide as well but the emphasis here on the next slide is on sustainable value. What are some of the levers we think we can pull to continue to improve that financial value? And then finally, I'm going to share with you what our priorities are for 2019, and I suspect that they won't surprise you, but I think it's good to let you know what our focus is and how we plan to advance on these areas.

So first of all on providing that sustainable value. And again, with the emphasis on the financial value. These are again the commitments we made in the Capital Markets Day, so first of all on net revenue and organic growth we are well on our way with 3% this year. A contributor to that growth as I mentioned before is to make sure that we pick the right clients. That's why it was so important that we went through what was a somewhat elaborate process to identify the top 250 clients. Those clients we will serve pretty much under any condition and those clients who we actually like to do more for. And as I mentioned, our growth for our key clients has been 10% over 2018, so that supports that whole direction of being more focused on the key clients.

In terms of operating EBITDA margin, not where we want to be. We are where we want to be in quite a number of our regions in fact 85% of our revenue or the EBIT associated with 85% of revenue, already generates the margins we'd like to see next year. We still have work to do, particularly in the Middle East and Asia. The programme which we introduced to you before, 'making every project count', is starting to bear fruit. It is a contributor for instance to the margin improvement we see in the more mature key markets. And that programme I think is now firmly embedded. It's part of – it's becoming part of the DNA in Arcadis to continue to focus on the execution of our projects and not just the technical execution but maybe even more so the financial execution.

The use of our global excellence centres, our plan this year is to grow that with about 15%, so more work in the global excellence centres, which works both ways. It will give us an opportunity to be more competitive. And if we deliver and sell it smartly it will actually also give us an opportunity to be more financially attractive.

And then on the net working capital and DSO side, that all starts, again, with client selection and hence the importance of making sure that we focus on the right clients. If you focus on the right clients as we for instance do in Australia, the DSO tends to go hand-in-hand with other performance.

And lastly the Arcadis Way here is our way of referencing the implementation of the Oracle system. And I can safely say that now having Oracle available in a number of our regions, the power of having data available of course is substantial and more and more people start to see how that is actually helping us to make the right choices and at the end of day perform better.

So in closing, what are the things we're going to focus on this year? Well, we will continue to focus on our revenue growth, and we intend to largely build on the very positive momentum we have in our key markets. Again, North America, the UK, Continental Europe and Australia and CallisonRTKL, are doing exactly what we want them to do and we will not disturb that. In fact, we want to see more of that.

Further margin improvement is equally important if not more important. I think the quality of the earnings is definitely an area of focus. And this year we have to be very rigorous in adhering to the actions we identified in the Middle East and Asia so that we turn around that performance. That means that we need to continue to focus on the right clients; that means a willingness to pass on certain projects, projects which are simply not going to give us the return we expect to get. So discipline and I can't illustrate and use that word enough. Discipline is going to be the key here.

Leveraging 'making every project count', we already have a lot of positive momentum and growing the global excellence centres as I mentioned as I was speaking about the prior slide.

And where we have opportunities to reduce the cost, we will definitely capture those opportunities as well. All of that should of course result in a continued further improvement of the balance sheet. We are pleased with the progress we made in 2018, but there is no reason for us to rest on our laurels. There is further improvement which we'd like to create in 2019.

And then last but not least, and maybe an appropriate way to finish this presentation with something we're not necessarily proud of. It is a legacy issue we're dealing with. The clean energy assets, the non-core clean energy assets in Brazil. Our focus, and trust me, including my personal focus, is on making sure that we finish that last gas to power facility as quickly as possible, that we push and pursue any opportunity we can find, together with the financial advisor we selected, to find the right buyers for these assets. And again as I said before, the objective is to try and sell these assets throughout this year. I will definitely pull up a nice bottle of champagne by the time we have reached that point.

So in closing, thanks for your attention so far. Obviously we're now going to open it up for questions. I am pleased with the progress we've made in 2018, but we still have work to do to continue the journey in 2019.

Thank you very much.

Maybe a quick comment. If you want to raise a question, please use the little button on your microphone so that people who are on the webcast can hear your question as well.

Hans?

Q&A

Hans Pluijgers (Kepler Cheuvreux): Yes. Good morning, Hans Pluijgets, Kepler Cheuvreux. A few questions from my side. A little bit look – walking through P&L first. Volatility in the sales growth as seen as little bit through the different regions, quite significant growth in the US, picking up quite significantly. Continental Europe a little bit slowing. Are there any let's say big contracts in there which are starting up or running off? So let's say, is this is a trend you expect to continue into 2019 for those two regions?

Then looking at the backlog. Excluding the Middle East, 2% growth, but if I look at the different numbers by region, I can't let's say add them up because if you look for example, yeah in the bigger regions you have quite significant growth, clearly ahead of the 2%. So could you give me maybe some more detail? Let's say is the Middle East a relatively big order book? Or in that kind of sense could you give a little bit of detail on how big the order books are by region?

And then looking at the Middle East, the goodwill write-down. Yeah, you are in a loss position in Q4. When do we expect let's say the turning point? I think at the mid-year numbers or even before that, you'd already indicated that you expect that the Middle East would start to turn middle of this year, it was expected to profitability. Could you give me some feeling on that, because let's says sales is more under pressure there than I think initially expected. So could you give a feeling on how you see profits for 2019?

And then my last question on Asia. The strategic review. Yeah, you said already you will let's say have taken some provision there, but do you believe let's say another review is behind you and also the provisions taken there are now, let's say most of it's taken, or do you still expect something maybe in Q1, as maybe some additional project has to be written off?

Peter Oosterveer: Let me maybe start with where you finished Hans, and address Asia first and then Sarah can take the other P&L related questions. So in Asia, we as I mentioned, we changed the leadership. In fact I should go probably a little further. We actually changed the structure as well and simplified the structure, so it was not just an individual which we believe is ultimately going to make the difference, it's actually a number of changes including simplifying the structure. And of course this individual who is now the CEO of Asia, first of all I happen to know him quite well, because it's a former colleague so I at least know where his focus will be and he's a very strong operational leader. And I'm comfortable that he of course has focused on those concerns and opportunities which could potentially become the biggest concern. So I think you're qualified by saying do you believe that by and large, and I'm probably using my own word by and large, you have identified all the issues, then I'm pretty comfortable that indeed we did identify the bigger issues.

Sarah Kuijlaars: So I'll try and remember all your questions. So I think firstly on margin, I think it's reiterating that there are – so that the – in the key markets, they're doing really well, yeah? So we've got North America which is up there at nearly 9%, UK, Continental Europe and Australia standing out at over 11.7%. Yes, we have to do more on Asia but that's still positive at the moment. And indeed the Middle East was negative but that's really related to those project write-downs which we believe then put us in a much more robust position in 2019 and the Middle-East will contribute positively into 2019.

Hans Pluijgers: I was initially more focussed on the sales there, that you see some more volatility through the quarters, so it was quite a pick-up in growth in North America and a slow down into slightly negative territory in Q4 in Continental Europe. There's always some big contracts. Is that the case? Are there some big and bigger contracts written off, or do you believe that Q4 is a reliable indication for let's say also the first half of 2019?

Sarah Kuijlaars: No. So I think in Q4 for revenue there were also some write-downs on revenues, so where you're reviewing what's in your run ahead, how robust is that? But indeed we are positive about revenue growth in 2019.

Peter Oosterveer: I think the question was also probably on new awards, large projects which –

Hans Pluijgers: Yeah, because in North America you've seen a pickup to double-digit growth and –

Peter Oosterveer: This is by and large a timing effect. In North America, in the fourth quarter we had a very, very strong fourth quarter. And it's actually a number of large contracts which could have easily fallen into January as well and then we would have probably seen a lesser growth. So nothing to be concerned about it, just the timing of it.

Hans Pluijgers: And then in the Middle East you expect already a profitable profit in 2019 for the Middle East?

Sarah Kuijlaars: Yeah. Yeah.

Hans Pluijgers: And then the backlog. I can't add up the numbers. Because here you are growing with 25% in Latin America, 5% in North America –

Sarah Kuijlaars: So indeed the backlog is significantly distorted by that minus 57% in the Middle East, but you've got a strong backlog in LatAm, positive in North America, very strong in the UK, solid in Continental Europe, negative in Asia and then very strong in Australia. And weaker than we would like in CallisonRTKL.

Peter Oosterveer: You know – it's obviously this is not the result of focusing on the percentage per se but the percentage relative to the base. The 25% in the LatAm is a nice number but it's on a small basis. So at the end of the day it comes out at the growth, even though – it actually comes out at minus two simply because of the large impact of the Middle East.

Philip Ngotho (ABN Amro): Philip Ngotho, ABN AMRO. I have three questions to start with. The first question is, I'm wondering if I'm correct with this observation, but has there been a restatement of the unbilled receivables last year? It was, last year, 487 million and it's now been restated to 565. Is that a correct observation? And can you explain a little bit why that restatement has taken place if that's the case?

And my other question is, I'm sure we will get more insights with the annual report when it's published, but can you give an indication of how the level of guarantees have developed this year versus last year?

And my last question for now is on ALEN. I would like to know what your expectation is of the cash outflow for 2019. So partly, I guess, the provision of 29 million, that would be a cash outflow, but what are the other expected cash outflows when looking at bringing the whole operations up and running?

And also, why do you only project a breakeven result in the second half of the year while the plants should be fully ramped up by them?

Sarah Kuijlaars: Shall I?

Peter Oosterveer: Yeah, go ahead.

Sarah Kuijlaars: So, starting on the receivables, you recall that IFRS 15 came in play so that impacts how we present those numbers. There's obviously much more detail in the annual report, but there is nothing restated in there, but it's just reflecting the IFRS 15.

Philip Ngotho: But the number last year was – so the – if I look at the 2017 number, it's now – there's 565. Was it not 485 last year?

Sarah Kuijlaars: So when you – so they – when you see the details, so they've both had to be reflect the where – how we represent in the IFRS 15 and so you have to bring out the provisions you've already taken, so it does change the way we demonstrate the results.

On the guarantees, yes that's also in the annual report. The level is slightly up but it's worth really understanding that so – the guarantees behind ALEN, we've had lots of discussions, we understanding the risk profile there. The majority of the guarantees are – there's a high number of very small guarantees supporting either projects, bank guarantees, leasing for buildings et cetera, and I think only 27 out of 1,000 are more than one million. And in recent past, they have never been called. So there's a lot of tidying up we need to do in 2019, which we will do, we've got a new treasurer in place, but for me there's – as I say, there's not a – there's very low risk associated to those.

Philip Ngotho: Well, but I mean you're taking some write-downs on projects as well, so –

Sarah Kuijlaars: Guarantees are not – guarantees are not being called.

Philip Ngotho: Okay –

Philip Ngotho: So maybe to help get a feel for the size of this. By the time you add it all up, it becomes a big number. But the reality is that is about and don't quote me on the exact numbers, 1,300 different guarantees which are performance guarantees on projects with an average of just over 100,000 each. So, you know, if you had one big guarantee of 200 million versus 1,300 each, that's a totally different picture. And that is the result of the type of business we conduct whereby a lot of clients particularly in certain regions are simply asking for performance guarantees on projects. So – but it is the sum of many small guarantees.

Philip Ngotho: Okay. But can you give me maybe a feeling of what the level is then at 2018? How much did it increase?

Sarah Kuijlaars: I'll find the number. I think it went up by about 20 million.

Philip Ngotho: Okay. And is that then, just for my understanding, because I assume that if you have fixed price contracts we need to take – it's more often that you have to issue a guarantee. So is it not then a reflection of the fact that you might be actually taking on more fixed price contracts and that it's in that case a risk?

Peter Oosterveer: No.

Philip Ngotho: Okay.

Peter Oosterveer: No, it is simply the reflection of regional preferences. By the time you really break it down in great detail, you just see that in some parts of the world, particularly in North America and Europe, which is where the majority of the guarantees reside, the client simply expects us to provide a guarantee. But again, they are on average €130,000 on average.

Sarah Kuijlaars: And I've found the number, so it's gone up from 286 in 2017 to 313.

Philip Ngotho: Okay. And the last question on ALEN.

Sarah Kuijlaars: And finally on ALEN. So of course we're aiming for cash neutral in 2019. Although we've got the plants operational, they're only beginning now to, you know, send out invoices, and then you get the cash in. As Peter's highlighted we've only got a proportion of the gas-to-gas under contract now. There's still the final connections being made. So – and unfortunately as we've learnt, it takes more time than we would like in Brazil.

Philip Ngotho: But those were two questions on that. I meant is actually first the cash out, just to – you know, you took a provision of 29 million, so I assume that you're expecting that to be a cash outflow in 2019 once you divest the assets, right? It's a credit loss.

Sarah Kuijlaars: So that's a P&L impact relating to our existing guarantees.

Philip Ngotho: But it will be a cash out, right? If you sell the assets but you have to repay part of the debt that you don't recoup?

Sarah Kuijlaars: So it would be a cash out depending on the cash price we achieve on sale.

Philip Ngotho: Okay. So that's a 29 million. But are there – what is the – other expected cash outflow from getting the plants completely operational? Because now you've still booked a loss in Q4. So what is it for Q1, for Q2?

And then my next question, aside from that, from just the cash outflow, how does it – why do you only expect breakeven in the second half of the year when they're fully operational? And maybe you can also, if you can share some insights on what you think the profile is once it's fully operational, the cash profile or the earnings profile?

Peter Oosterveer: So let me – let me look at – let me explain the operational side first to understand why it takes time, even though they're operational.

So, the gas-to-gas plant was operational as of July of last year. Operational in the sense that it was fully functional, that we were taking the gas from the landfill, and that we had the opportunity to actually transport that gas to offtakers. However, at that time as we communicated, we didn't have a contract. Now we have a contract for 35%. The one and only piece which we still need to do, and that's why is that that we expect to start producing or shipping the gas towards the end of this quarter, is to make a hub connection at the client's site. This gas is actually shipped through cars, trucks, and so we need to make a connection at the client site which is expected to be completed by the end of March. And that is the time whereby we physically are going to deliver the gas to the client and can start to invoice to the client.

On the gas-to-electricity, that's actually a really complicated story, to be perfectly honest, but we are delivering 60% of the electricity at this point in time which is being delivered to a so-called clearing house. We are waiting for the electricity company to give us the final operational permit, and only when we receive that operational permit, which we have been told is imminent, but we are taking a bit of an additional cushion if you like, because we've learned from the past, only when we get the operational permit we will be able to start delivering to the grid and then we can invoice the client as well. So that's the time delay which I think is part of your question, Philip, that they're operational but yet you don't see cash coming in.

Philip Ngotho: Okay. And any feeling on how it looks like once this is all – once you can deliver to the grid? So, what are we talking in terms of numbers, in terms of cash generation per year or net profit?

Peter Oosterveer: I think because of trying to learn from the experience, we probably don't want to be too specific in that regard. And I know that gives you probably a degree of uncertainty but we would rather not be specific. Again, because everything seems to just take a little bit more time in Brazil. But we have built in that margin as I just explained, at least in our execution of the projects. But I'd rather not be very specific on how much cash we would generate in the second part but the expectation is that so it will not be a loss any more.

Philip Ngotho: Okay. Thank you.

Albert Pranger (Kempen): Albert Pranger, Kempen. Just one question for clarification. If you look at your debt schedule and after the recent refinancing, I noticed a jump in the weighted average interest rate of 3.2 to 3.8%. If I do a very quick and dirty calculation, that would imply that the incremental cost of debt on the refinanced tranche of 200 million is about 6.5%, and that screens rather high. So I'm pretty curious what the interest rate actually is on that refinanced tranche? Thank you.

Sarah Kuijlaars: So the refinancing, the – so there hasn't been a big shift in – in interest rates, so I don't quite know how you got to that calculation, but it's with the same syndicate of banks and it's been very reasonable terms. Of course, there were some interest rates that have gone up, but there's nothing strange or unusual in that structure.

Albert Pranger: Okay, but does that then mean that on the other outstanding debt, interest rates also rose? Because otherwise if the 60 bps jump you had in your weighted average cost of debt was caused by the refinancing, then that is the only source that can drive that increase, right?

Sarah Kuijlaars: Yes, so there's an element clearly that's floating, but I don't – we don't see an increase in terms of interest charge going forward, no.

Albert Pranger: Okay. Well, that's pretty interesting then. It's hard for me to understand why that increase happened from 3.2 to 3.8.

Sarah Kuijlaars: Maybe we'll provide you the backup afterwards, but it's – yeah. It's yeah – yeah.

Albert Pranger: Yeah, please, because it's pretty interesting.

Maarten Verbeek (the IDEA): Maarten Verbeek, the IDEA. A couple of questions from my end. When you talk about the proposed divestment in Brazil, am I right and correct with also what's standing behind you that it could be also a deal in two tranches? Or do you still target to sell all the assets in one transaction?

Peter Oosterveer: Yeah. The most likely scenario will be that we have probably two different transactions because of the nature of the facilities. Because one being a large gas-to-gas plant and the other one being gas-to-electricity. But that is not certain yet. I mean, that's why we are now with our financial advisor, Itaú. I talked to prospective buyers, but I would say if I had to put my money on what the most likely outcome would be then it would probably be two transactions.

You know the – part of that discussion also is, as you've seen, we most likely will in say in couple of weeks from now still have 30% of the gas-to-gas to be put under contract. The people we talked to could potentially have an interest in not selling that to another buyer but using it for either their own business and their own business model. So it gets a little complicated, but the reason why we wanted to of course secure the financial advisor and start the dialogue early is to basically explore all opportunities, rather than waiting until all the gas was under contract, as an example on the gas-to-gas plant, and then start the conversation. So there are still different options possible, but again, my most likely scenario would be that the gas-to-electricity plants would be sold to one party and the gas-togas plant to another party.

Maarten Verbeek: Could you more or less indicate how much of your net revenues can be allocated to your top 250 clients?

Peter Oosterveer: Yes. If I want to – if I give you a specific number I want to be sure that I am specific. I think – no I don't – I'll probably need to give you that separately if I give you a specific number but it is definitely the majority of our revenue.

Maarten Verbeek: And then lastly for now, looking at your working capital ratio and DSO. Also looking to 2020 targets. Shouldn't you be sharpening these targets, since there are still – what you also mentioned yourself, we are not done yet, still quite some achievements to be made. Shouldn't you be sharpening those targets?

Peter Oosterveer: You're taking about the financial targets.

Maarten Verbeek: Yes. For example, your net working capital ratio of below 17 and your DSO, your daily. And there is still lot of progress. You mentioned yourself, or Sarah mentioned, we are not done yet so there is still progress, so shouldn't you be fine-tuning these targets?

Peter Oosterveer: Yeah, I think that's a fair question and I think that is probably part of validating your strategic plan and the action you need to take which is something we actually plan to do throughout this year as well. So yes, I can see your point. If you're committed to 85, as an example, on DSO, and you're sitting at 80, why would you not tighten that further? I can guarantee you that now that we are at 80, that no-one is thinking, well, we can let the reins go because 85 is good enough. I can definitely guarantee you that. But I can see your point. We have not made that commitment at this point in time but it is part of the review we will undertake this year.

Maarten Verbeek: And [inaudible], will you commit to the current levels? So the 80 DSO and the 15 net working capital?

Peter Oosterveer: We have committed and are committing to the goals we set for the Capital Markets Day.

Maarten Verbeek: Okay, but now we have reached those levels and you still believe we are not done yet, there's still improvement, so can you at least commit that you won't go above these levels in 2020?

Peter Oosterveer: No, we're still committing to the Capital Markets Day, but what I – when I said we're not done yet, I was largely focusing on the improvement areas to get them to a level which is more acceptable to what we think is the right number.

Hans Pluijgers: Maybe a follow-up question on the cash flow and the reduction in receivables. If you look let's say at the receivables, especially through H2 and especially Q4, where let's say have you been let's say collecting the most of the receivables? Of course we've seen [inaudible], which is already mainly H1. And still I see quite a high number for DSO in the Middle East, 265. So, let's say have you been mainly pushing or have you been able to collect them more let's say in the easier regions, or at least also a part of that improvement in Q4 driven by in the Middle East? Could you give some feeling on that?

Sarah Kuijlaars: Yeah, so the push has absolutely been a global push, because obviously some of the higher levels of receivables are in the regions where we have a higher level of revenue. So for example, the US is a very high contributor to that. But the push has been throughout. In the Middle East, yes we still have some sticky receivables that we are – which you can see in the DSO days, but even in the Middle East, we've seen cash flowing through.

So the Middle East in itself received more than €200 million cash in 2018. We highlighted the 25 million at half year, but there is cash moving through. Clearly it's not moving through quickly enough, which is why we're maintaining a focus on there. But in Q4, the US improved, UK improved, Australia improved, all showed improvement.

Hans Pluijgers: And through the year has KS – the Middle East improved compared to the end of last year? Because I think the number for the Middle East was somewhat lower at the end of last year in the DSO.

Sarah Kuijlaars: So in terms of DSO days it is – those – it is still high, but in terms of the absolute amount, it is lower.

Hans Pluijgers: Yeah, but it's also because your sales are going down.

Sarah Kuijlaars: No. So, indeed. Yeah. So the absolute exposure is lower, but indeed the DSO days is not where we wanted it to be.

Speaker: [Inaudible] opportunity to ask a question. I'll give Philip another chance. Philip has another question there.

Philip Ngotho: Yes. So, Philip Ngotho, ABN AMRO. Two follow-up questions. On ALEN, I was wondering, the – you indicated that there are some loans that are maturing this year, 2019, so 50 million. Normally, what you – just like what you did as well for the corporates, normally, you're always renewing and negotiate those loans one year ahead. So I assume you have been in talks with the banks. Can you give us a feeling on how these talks have progressed? And why it hasn't been renewed yet? Or are they actually not planning to renew the loans at all? And is it really just a matter of divesting? And if you don't manage to divest, you have to take the loan on your balance sheet.

Then my last question is on the write-downs in Q4. So there in total, it was 11 million, majority from the Middle East. Just wondering if you can give a little bit more colour on the nature of these write-downs and the projects that you took the write-downs on?

And you also indicated that you're looking to decrease the exposure to more the kind of the fixed-price contracts. So I'm wondering how many of these kind of projects are in the order book in the Middle East and what kind of size are we talking about?

Peter Oosterveer: So let me take that one first and then I'll ask Sarah to comment on the 50 million renewable loan.

So, in the Middle East, what we said is that we would eliminate fixed price D&E work and more specifically in Saudi. And that's simply learning from the past whereby first of all it is a highly competitive environment, and secondly the behaviour of the type of clients we typically serve with these type of services was unpredictable. And we don't want to be in a situation where clients are largely unpredictable. So when I say, shy away from lump sum work, it's not like we don't feel that we are capable of doing lump sum work, but it is specifically the D&E work and more specifically in Saudi. Because when you for instance break it down further and you look at the behaviour of the clients in the Emirates, and actually the financial performance in the Emirates then it's much closer to what we see in, say, the more mature and key regions.

So, we're making a distinction. I want to be sure that we don't paint everyone with the same brush. We make a distinction in countries and type of services.

As far as the write-downs is concerned, those are a number of projects which actually fall in that same category, the category of that lump sum D&E work which we took on some time ago, whereby we had an expectation that at a point in time the client would be amenable to awarding us variation orders or extension of time, anything which we felt that we were owed and we now have concluded that that's probably not going to happen.

Philip Ngotho: Okay. And can you give us an idea of the size of the order book in Saudi Arabia?

Peter Oosterveer: The size? So the backlog?

Philip Ngotho: The backlog, yeah. Sorry, yeah.

Peter Oosterveer: I don't have the number here, but –

Sarah Kuijlaars: Not by country, no.

Philip Ngotho: Okay.

Peter Oosterveer: No but, is it just Saudi? Oh just Saudi?

Philip Ngotho: Yes, Saudi Arabia because I'm wondering, if that's the highest risk and that's where you have taken the write-down, so –

Peter Oosterveer: I think we've actually – we have de-risked our Saudi portfolio through a number of things. Simply from July last year not taking on any work anymore which is in this category. I mean, the fact that we now communicate it doesn't mean that we are now as of this date are not taking on this work. This was communicated internally as already as of July of last year. We took the time also to clean up any receivables we could clear up, and take these write-downs. So in Saudi, I can – without quoting the numbers, but I can safely that our backlog has come down quite a bit.

Philip Ngotho: Okay.

Sarah Kuijlaars: On the ALEN loans, indeed historically they've been third-party loans, which historically have been rolled over. The bulk happened I think in the end of Q2, beginning of Q3, and indeed the associate is starting those conversations with the banks to refinance in the middle of the year.

Philip Ngotho: Okay, so it's a regular course of business – I mean, you have done this more often within the year –

Sarah Kuijlaars: We've done this in the past, but we haven't got it – the associate hasn't got it finalised today.

Philip Ngotho: Okay.

Speaker: Once again a question about the Middle East. You mentioned about a cancellation of a large project. Who cancelled? Was it you or was it the counterparty? And correlated to that, is there a chance of a penalty or a reimbursement? And secondly, last time we met you mentioned that more or less the Middle East would bottom out in 2019, so picking up again at the end of the year, with a backlog decline of 57%. Do you still believe that you expect to bottom out in the Middle East in 2019?

Peter Oosterveer: So, the cancellation of that particular project, which is not something we mention all the time, but this in this case it was a very large project. It actually was project in the Emirates, or let me be even more specific, in Dubai. And the client cancelled this project. They went back and forth and in fact they had a number of iterations throughout the year whereby they reduced the scope, then brought it back, and then finally cancelled the project. So it is – it was a substantial enough project for us which we had in backlog and we had to take out to actually mention. A single large project. And then the second question?

Speaker: Before you answer the second question, will you be reimbursed for costs you've made or whatever? For this cancellation?

Peter Oosterveer: So, there is – there's a little bit of tail end on that project which we're still debating with the client to get us reimbursed for the remaining cost, but I would not necessarily say that's material.

Speaker: And my second question was about the revenue growth within the Middle East. You firstly mentioned you expected to bottom out in 2019 but with a 57% decline in backlog. Do you still believe that to be the case?

Peter Oosterveer: Yeah. Well, I would certainly say that we bottomed out in 2018 on the bottom line, and we better be, because the expectation is, as Sarah said, that in 2019, we will at least be positive at the bottom line. And that's clearly the expectation. I think as I see it right now and with our selectivity, I am still maintaining that same position that 2019 will be the year where we bottom out.

Jurgen Pullens: Are there any more questions? No? Then I would like to thank you for your attendance. Thank you.

[END OF TRANSCRIPT]