Corporate Participants

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Neil McArthur  
Arcadis – Chief Executive Officer  

Renier Vree  
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Arcadis – Executive Board Member  

Presentation

Operator  
Thank you for standing by and welcome to Arcadis Capital Markets Day conference. At this time all participants are in a listen-only mode. There will be presentations followed by question and answer sessions (operator instructions). I must advise you that today’s conference is being recorded today, Wednesday 4th December 2013. I would now like to hand the conference over to your first speaker for today, Joost Slooten. Please go ahead.

Joost Slooten  
Good morning and welcome to this Arcadis Capital Markets Day. My name is Joost Slooten, I am the Director of Investor Relations for Arcadis. And before we begin I would like to draw your attention to the health and safety instructions with regard to the building. If you hear an alarm, which is a slow whoop, assume that it is a real alarm because there is no test being scheduled for
today. And you are to leave the exits, which are marked with the green signs and there are four exits in this room. Please follow the exits to the outside of the building and follow instructions of staff to make sure that you are safe.

We are here today to discuss the company’s announcements of the strategy update for 2014/2015 and with us in the meeting today and the call online are Neil McArthur, Chief Executive Officer; Renier Vree, Chief Financial Officer; as well as other members of the executive board including Stephanie Hottenhuis, Friedrich Schneider and Zack Smith.

The PowerPoint presentation that is being used for today’s meeting is available on the investor’s section of the Arcadis website for which the address is www.arcadis.com/investors. Just a few words about procedures before we start; we will begin with formal remarks and 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 would like to call your attention to the risks related to these statements which are more fully described in the press release and on the company website. Please also note that in today’s session we will discuss the strategy, so the longer term financials of Arcadis looking forward, we will not be discussing current numbers or Q4 results.

Also for the participants in the room, in your pack you will find an evaluation form for this capital markets day. We would very much appreciate your input on that. Arcadis has a drive to be the best at everything we do. We also do at investor relations, so we would appreciate your feedback to make sure that we can improve our quality.

And with those formalities out of the way, I would like to invite Neil McArthur, our CEO, to come up and start his presentation. Thank you, Neil.

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Neil McArthur

Thank you, Joost and I would like to welcome everybody to Arcadis’ first capital markets day where we are very happy to share with you our sustainable growth performance and collaboration strategy for the next three years.

The agenda for today you are going to see myself and Renier Vree taking you through the strategy and financials. We are then going to have a Q&A session on the high level strategy and the financials. Then we are going into each area of the business led by each one of our executive board members and there will be an opportunity to ask questions at each phase as we go through. And then I am going to come back at the end with some closing remarks.
But before we get started, health and safety is very important. As leaders of Arcadis the most important thing that we can do is ensure that our people, our clients and the contractors that we work with go home safely every day. We work in some of the most difficult and demanding industries around the world, whether that is oil and gas, whether that is mining, whether that is the construction industry. And we set out with two elements of our health and safety policy, to track to what we call zero recordable incidents. The first one track to zero, where we ask all of our people to make sure that before they start working they think through the tasks ahead, that they recognise the hazards involved. That they assess the risks involved in the work that they are going to be doing. That they control those risks and when they are performing their work they keep health and safety first and foremost in their mind and by doing that we want to be able to track to zero recordable incidents.

The second concept that we have recently introduced is if not me then who? And that is a broader concept that is taking our health and safety philosophy from work into our home environment and how we live our lives every single day. And to give you a simple example of that, working or being with your friends and family, simple things in the home, don’t use a dining room chair to stand on to replace the light bulb. Take the two or three minutes that it takes to go to the garage and get the step ladder and do that in a safe way. And by taking those simple steps in your daily life, we want to encourage our people to have health and safety as part of our DNA on a daily basis. So very simple steps in order to make sure that in everything that we do, whether it is in our home life, being with our friends and family, or in our working life, health and safety is part of the DNA culture of Arcadis.

I am now going to have the honour to present our sustainable growth performance and collaboration strategy and the first slide here shows you something that we are very proud of here with our team in the Netherlands is being associated with the reopening of the Rijksmuseum here in Amsterdam where Arcadis, Netherlands, did all of the structural engineering, which was quite a feat. The building didn’t move while we actually put a couple of floors below the building in order to be able to demonstrate and showcase to the world some of the great treasures that we have here from the art collection in the Rijksmuseum. If you haven’t been, it is a wonderful experience and I would recommend that you go. This is one of the new atriums that have been designed as part of the Rijksmuseum.

So our passion; we have had about 500 leaders around the world involved in developing our new vision and our new strategy for the following three years and our passion that we have developed is really about improving the quality of life and being recognised as the best. We have also worked very hard together to create a new mission and we have crafted one that says that we are
all about creating exceptional and sustainable outcomes for our clients in both what we call the natural and built asset environments. And in doing so we came together and set very challenging goals for ourselves and for the organisation. And those are about creating sustainable solutions for the world; delivering exceptional outcomes for our clients; helping all of our people realise their potential within Arcadis and enjoying the journey along the way to being recognised in the industry as the best.

But we are going to a little bit of a step back before we step forward in to the future. Today we are the leading global design and consultancy firm. We have 22,000 people around the world with something like 350 offices. We are in 40 countries and we do about 25,000 projects. What you see here is the progress that we have made over the last three years as part of our previous strategy. In orange, that gives the size of our revenues in each of the regions around the world in 2010 and you can see the growth that we have achieved by 2013 in blue. So we have had small growth in the more developed parts of the world, in North America and Europe, and you can see the substantial progress that we have made in balancing our portfolio with growth in the emerging markets, which for Arcadis is Latin America, the Middle East and across Asia.

Our business portfolio today is strong and is diverse. On the left hand side you see there is a very nice balance today between mature markets and emerging markets, North America continues to be very important for us, about 44% of our gross revenue at the half year point this year. Emerging markets is now to date 24%, up from about 10% only two or three years ago, and the rest being both the UK and Continental Europe. We also have a very nice balance between private sector clients and public sector clients. Our private sector clients have grown 10% over the last two to three years. It is now 55% of our portfolio. Pure public sector is 25% and then what we call utilities is an end market sector with both public and private ownership being around 20%.

We also have complementary business lines. The four that we have, our biggest remains environmental today; there has been strong growth in our buildings business line and you will see that when we go into the individual business lines in more detail later. Infrastructure, very important for us; and then water, where we entered four years ago, five years ago with the Malcolm Pirnie acquisition. But we have also got a very nice balance today, moving higher in the value chain between design and consultancy. Consultancy is now 31% of what we do. High value added solutions in programme, project and cost management, another 20%. So more than half of what we do today is higher in the value chain. Design and engineering continues to be very important for us, nearly a quarter of what we do; pure architectural design, around 7%; and one of our core businesses, environmental remediation now at 13% of our portfolio. So if you
think about that we are geographically diverse, our clients are very diverse. We have a good spread across our four global business lines and a nice mix between both design and consultancy.

Over the last three years we have also had a very strong track record of performance delivery. If we look at strong revenue growth, the compound annual growth rate in our net revenue has been 17% over the last three years and that has been a double digit margin. We have got a 14% compound annual growth rate in operating EBITA and then we have done that with improving cash discipline. You can see the ratio there of free cash flow to net income, which last year was at 1.4.

We have also created substantial value for our shareholders. In terms of earnings over the last three years a compound annual growth rate of 12%; earnings per share now at 1.49, with a consistent dividend policy. So just reiterating, that is between 30 and 40% of net income from operations and the dividend per share has over the last 20 years been the same or increased in every single year and over the last three years we have had a compound annual growth rate of 5%. And we have done all of this while continuing to grow acquisitively. We have moved from 15,000 people three years ago to 22,000 people. And we have managed to do that while maintaining and average net debt to EBITDA ratio of around 1.4, 1.5. At the end of the third quarter we are back down to 1.4.

If we look out into the market place there is an increasing urgency for sustainable solutions driven by a number of forces that are global and also the demands of our clients to meet those forces. Whether we talk about globalisation in serving our multinational clients around the world, urbanisation, the picture there is Pudong for those that don't recognise it, in Shanghai. As taken from the Shanghai World Financial Centre. It is a 500 metre tall building looking down on the first high rise building in Shanghai, which is the Jin Mao Tower. We chose this because both of those we did the cost management for through Langdon & Seah and we have been there for 20 years in Shanghai.

Urbanisation is a major trend that you will see back in our strategy for the next three years. In China alone there will be 300 million people still migrating to the urban environment over the next 20 years. Climate change, sustainability and scarcity of natural resources are all major forces that our clients are grappling with and you will see that back in our strategy. And the last one that I would like to mention here on this page is in the bottom left, what we call asset productivity. So in the developed world there is less capital expenditure for new investments, but clients are very interested in improving the efficiency of what they already have in terms of assets and that plays
directly to our ability to help our clients through the operational part of the asset lifecycle with our business advisory service offering.

And even today, as we move into the next period of our strategy, we as Arcadis are addressing the world’s most pressing problems. Four examples of recent project wins; Grand Paris express metro in Paris: that is the 100 kilometre metro system where we are involved in the project management and the technical expertise associated with that. And that really addresses the trend of urbanisation and mobility in a more sustainable way. A lot in the press around climate change, we have chosen Hurricane Sandy here in terms of the recovery, which is also impacting urban environments around the world. And the latest example of that is in the Philippines. If you take sustainability and scarcity of resources, land being a very scarce resource in the developed world, our restoration of US Air Force bases, really plays to the sustainability and the scarcity of land. And then the last example is around globalisation and that whole question around getting more out of what you have in terms of asset productivity. We are helping Philips in support of their global real estate support.

If we then look out to the market, what you see here is for the four global business lines that we have in Arcadis, so infrastructure, water, environment and buildings. The dark blue is the size of the market in 2013, the addressable market for Arcadis. And the light blue is the growth by 2016 in this strategy period. What is interesting to note in absolute terms is, from the market perspective, two thirds of the growth will come from the emerging markets and only one third will come from the developed world.

So in terms of our strategy, on two dimensions the portfolio that we talked about earlier on the vertical axis, we are looking—if you take two dimensions, the stronger portfolio or weaker portfolio, clearly we would like to be in the position that we have the higher growth market sectors and the higher margin solutions. And I mentioned that we have grown substantially in terms of consulting programme, project and cost management services, higher in the value chain. There has been about a 10% swing in that over the last three years. And then the second dimension is how you actually create synergies from what you already have. On the left hand side, little collaboration, everybody doing their own thing. And over on the right hand side, creating those synergies through collaboration and sharing of best practices.

Now if you think of the journey that Arcadis has been on over a long period of time it has been moving higher in the value chain, seeking out those high growth market sectors and developing those higher margin solutions. And it has been creating more synergy through our global business lines and we are going to continue that journey in terms of heading northeast.
So our strategy is sustainable growth, performance and collaboration. And sustainable growth, why did we chose the word sustainable? Well that is really for a number of reasons. The first is that we have seen from our clients demanding more sustainable outcomes in the solutions that we provide and then a focus from Arcadis in developing for ourselves sustainable growth by increasing our targets for organic growth. And then at the centre of all of this is a performance culture and a collaborative culture in order to bring the absolute best of Arcadis to our clients, whether that is a local, national or global client and being recognised in everything that we do as being the best in the industry.

So before I share the elements of the strategy I think it is important to emphasise how we believe Arcadis will differentiate from our competitors in the future. And I am going to do that on the next four slides. First and foremost we differentiate by addressing our client needs through the asset lifecycle. And what you can see here is that the whole lifecycle approach, whether it is in planning an asset, in helping our clients create the asset and then as I talked about in the operational phase getting that asset productivity higher or reinventing or redefining an asset at the end of its lifecycle. The whole purpose is to create those exceptional and sustainable outcomes for our clients.

Now how we are going to compete is different in the mature markets as from the emerging markets. So as we shared with you, the growth in absolute terms, in terms of capital expenditure in the mature markets is less, so therefore what we are going to be focusing on is building out our leadership positions that we already have. Taking market share in the planning and creating part of the asset lifecycle. But then we are going to capture the growth in the operating side of the asset lifecycle where clients are looking to improve the productivity of the asset that they already have. So that more the operational consulting part of what we do and then helping clients redefine those assets in order to get more value from the scarce resources, for example land, in the developed world.

If we then switch to the emerging markets, as you have seen there is much higher levels of absolute growth in terms of capital expenditure, so there Arcadis is positioning to capture market growth in planning and creating assets with our clients and then positioning as those emerging markets become more mature for operating and redefining assets. And for example, not all emerging markets are at the same level of maturity. If you take Singapore and Malaysia, there is already a need to help our clients on the operating and redefining assets part of the asset lifecycle.
The second way in which we are going to differentiate is bringing what we call deep market sector insights together with our technical expertise to deliver those exceptional outcomes for our clients. And we have chosen three examples here at different stages in the asset lifecycle. The first one São Paulo airport, really in the creation phase of the asset wheel; we are bringing airport and aviation market sector knowledge and expertise from EC Harris, who have a 20 year relationship with British Airports Authority, delivered Terminal 5 at Heathrow, a £2 billion investment, £200 million under budget. Combining that with our local expertise with Arcadis Logos in Brazil in project and programme management, we win the work not only to deliver the programme management for the airport but also the operational readiness for start up.

The second one in the middle there is for a global mining client. This happens to be a mine reclamation project for that particular client in Canada, where we bring our mining market sector knowledge and expertise, combined with our leading edge remedial and water technologies in order to be able to return to a sustainable natural setting and reuse of land. And you can just see on the top right hand corner of that picture this slightly lighter green. That is the area that is already being returned to the natural environment and over a long period of time we will be able to bring that back to reuse for that particular client.

If we then take the third example on the right, a water utility in the UK, that is really in the operational part of the asset lifecycle where our global expertise in the full water cycle capabilities, matched with our consulting capabilities around capital and operations excellence, allows us to—for our water utility client to improve their cost effectiveness and their operational efficiency. So the combination of asset lifecycle and deep market sector knowledge and expertise matched with our technical capabilities allows us to deliver exceptional outcomes.

While integrating, and this we believe is a point of differentiation for the future, sustainability and health and safety into our solutions. If you look over time on health and safety and sustainability, it has all been about compliance in the past. Today it is around wastage reduction, resource usage and raising the awareness and the communication about that. In the future we believe there is a differentiated positioning for Arcadis in creating sustainable and health and safety into all aspects of our design and delivery of our projects in order to deliver more sustainable outcomes for our clients.

And then the final point of differentiation is that all of our solutions will be seamlessly delivered locally across the globe. And what you see here in dark blue is where we have either permanent offices or recently involved in projects all around the world, stretching from Alaska to Australia, from Russia and Siberia all the way down to the Southern tip of Latin America.
If we now turn to our strategy for the next three years, the first element in creating those exceptional and sustainable outcomes is what we call sustainable growth. And there are three elements to that. The first is expanding our core business today. So that means our local, our national and our multinational clients through our regions and our global business lines by focusing on our key clients to drive a higher level of organic growth. It is about differentiating through that market sector knowledge that I talked about and superior client relationship insights and management. And it is about scaling the value propositions and outcome driven value propositions that we have with our clients today.

The second element is around accelerating our organic growth by focusing on seven priorities. Three of those around end market sectors and four are what we call value propositions. So if we take those in turn the priority markets, emerging markets, which means for Arcadis continuing in Latin America, Middle East and Asia. Big urban clients, that means helping the world’s leading cities and that will be shared a lot more in detail when we talk about big urban clients later in the presentation. Focusing on the first set of tier one cities, 12 that we have identified where we can bring the full range of capabilities of Arcadis to help those cities develop competitive advantage in a sustainable way. Because there is competition for investment in those cities, for people and also their positioning as leading cities in the world and we can help them with that.

Third priority market is natural resources, which basically means for Arcadis mining Americas and oil and gas. And then we have focused on four priority value propositions in order to drive higher levels of organic growth. The first one is around our core of bringing environmental and water together for sustainable solutions for our industrial clients. The second one is continuing to scale programme management as projects become more complex and more projects into a programme for clients that need to be delivered with more certainty around both time and budget. We want to continue the journey to build our capabilities around programme management. In fact we have developed our own academy that will open next week with the first 30 programme managers going through that programme.

Thirdly, business advisory; as I said earlier in the presentation, consulting solutions are around 31% of our revenue today. That is a business that we want to continue to develop around all aspects of the asset lifecycle. And then finally design, which could be architectural design, it could be conceptual design, it could be design of speciality engineering. So the second element of sustainable growth, expanding the core, accelerating growth through a number of priorities, and then finally mergers and acquisitions which will continue to be an important part of our strategy going forward.
The criteria that we use is close alignment with our strategy; to strengthen our leadership positions that we already have; continuing to build differentiated capabilities in order to better serve our clients. Looking for those opportunities where we see a very clear path through integration to potential synergy creation like we have done in the past. And they have to be value enhancing and accretive. So we see sustainable growth through expanding our core, accelerating growth through seven priorities and continuing to focus on value enhancing and accretive merger and acquisition opportunities.

So then turn to the second element of the strategy, performance. Being the best in everything that we do; having a culture of continuous improvement; across everything that we do. Whether that is client facing in terms of the client selection and client account management. Whether it is about the market sector insights and research that we do in order to have that differentiated, competitive advantage versus our peers. In terms of value proposition development, how we innovate around sustainable solutions. How we share knowledge and expertise on a global basis. How we perform our day to day operations as Arcadis, whether it is health and safety that we talked about, whether it is how we improve our project management, how we improve our resource utilisation and how we continuously strive to be able to have the lowest costs to serve in how we actually do our work. Or whether it is all of our enabling processes as a global organisation in terms of developing our people and our future generation of leaders, how we steer our business, the information technology that enables us to do our work more effectively for our clients and how we market ourselves to the outside world.

And when we do all of that we will be the partner of choice for our key clients; we will be recognised as the employer of choice; and we will continue to deliver top quartile shareholder returns. So sustainable growth and at the centre being the best in everything that we do through performance, but also through collaboration, bringing the best of Arcadis to our clients, irrespective of where they are in the world; irrespective of whether they are a local client, a national client or a global client.

Remember I gave an example at the beginning of Grand Paris. That is a very local client, but we won that work by leveraging and bringing the best of Arcadis globally in terms of project and programme management services together with our local technical expertise and programme management capability in order to win that work for a very local client. That is what we mean in bringing the best of Arcadis to our clients. I also gave the example of the Guarulhos airport in São Paulo. Again leveraging our capabilities, bringing that to a very local client in order to win the work and deliver the work very successfully.
So for our strategy we have two elements of collaboration and one is continuing to evolve our operating model. So enhancing our client facing capabilities and we have made a number of press announcements recently of senior appointments brought in from the outside to strengthen our market sector leadership in oil and gas, both globally and regionally. Those are the kind of examples that we have been enhancing our client facing capabilities. We are strengthening our global business lines. We have very clearly identified those value propositions within each of the global business lines that we believe we can help our clients by scaling them on a global basis.

And the third element of continuously evolving our operating model is simplifying our structure and our business steering. And a good example of that is the new operating model that we put in place from Europe where we have moved from six P&Ls to one pan European leadership and P&L. And you can see the kind of improvement that we have made in our European business.

The second element of collaboration is enhancing the culture. Through this whole exercise with our senior leadership group, very broadly on a global basis, we have redefined our values for the next period. We retained integrity as our license to operate. We combined our previous two values of entrepreneurship and agility with a passion for developing exceptional outcomes for our clients and created a second value called client focus. The third value is around collaboration, where we believe in the power of diversity and working as one with our clients and within Arcadis on a global basis in order to be able to develop and deliver those exceptional and sustainable solutions on a global basis. And then sustainability as a fourth core value with health and safety also central in all that we do for all of the people that we touch.

Another important part of our culture is role modelling this collaborative leadership top down from our senior management committee into our leadership groups around the world to make sure that we identify and bring the best of Arcadis to serve those local, national and global clients. And of course in doing that we need to align the measurement and the rewards in order to encourage the kind of behaviours that we are looking for.

And with that I would like to hand over now to our Chief Financial Officer, Renier Vree, who is going to take us through our financials and targets. Renier?

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Renier Vree

Yes, thank you, Neil. Good morning. Before sharing with you our financial targets, I would like to take a minute and talk about risk management, because as you know in order to be in control of the business risk management is a prerequisite. We have defined our risks in three categories.
One area is around the operational risks and controls we have in place, such as the selection of our clients and the projects we do for them; the fact that we have regular reviews of the progress and results of our projects. Health and safety, again coming back here as a way to make sure we avoid risks where we can. And also working capital, which is in the mean time something which is in the incentive system for our staff all around the world at all levels.

A second category of control is around compliance. Neil already referred to integrity a minute ago, about business and personal integrity, but also the fact that we have compliance checks through our internal audit function and also externally through our external auditor. Whereby we not only focus on the hard control policies and procedures, but also on the soft controls, so what is the tone at the top of our operating companies and how is the culture evolving?

When it comes to acquisitions and integration, also very important that we continue to have a very strict selection of companies that we acquire and when a merger takes place the first thing we do is to make sure that reporting of an acquired entity is in line with the requirements of Arcadis. And as an executive board we supervise and have a clear view on the development of the business as well as of the integration.

Strong financial management has been important for Arcadis and will be going forward and we split that into performance management and the capital structure. When it comes to performance management, we track performance across the elements of what we call the cube, so both the countries, the geographies, the business lines as well as the client sectors and track them against our targets and ambitions. Cost control, remaining very important, focusing on the billability of our staff, control of overhead and I think you have seen that over the years that especially when markets were difficult, we were able to continue to manage the margin well.

Disciplined working capital, by focusing on working capita we focus on clients and on projects, which is what we happen to do for a living. And cash management which has become centralised increasingly over the years because cash is a corporate asset and by centralising that we also control our performance and risks.

When it comes to capital structure, we want to continue to have a prudent structure, which means that we don’t want our net debt to exceed the level of two times EBITDA as before. And that the debt that we have are coming from diversified sources, be that more long term from US private bond holders or from banks for short term funding, so that the funds are available when we need them. And our dividend policy to remain consistent with a payout ratio of between 30 and 40% of net income from operations.
Then moving towards the targets for the period 2014 to 2016 on slide 27; in terms of growth we have an organic growth target to be above 5% on a compounded annual growth rate for the next three years and a target for inorganic growth, so growth through acquisitions also to be above 5% on average over the next three years. We have increased the margin target. Before it was 10%, now we have said that in the course of the strategy period we want to have the operating EBITDA margin to move to above 11% and then recognising that we have to make investments in order to get the organic growth improved in the strategy period. We have added a cash target and the cash target is—we have a free cash flow exceeding our net income and it means that we are going to have at least 100% conversion of cash from our profits. And free cash flow is here defined as the cash flow from operations minus our capital investments.

And finally the return on investment capital target to be above 13%. If you look back at the last couple of years, we have been at a level of just above 13% and be aware the definition of investment capital for us here is that it includes the full acquisition price of companies we acquired, so that means we set back the amortisation that takes place over the year in calculating the investment capital and the definition of return is the profit before interest and after tax to come to this calculation. And it compares with originally a target in the previous strategy of 15% also reflecting that the cost of capital has come down and at above 13% there is significant value creation taking place.

With that, Neil, I hand it back over to you.

Neil McArthur
Thank you, Renier. Just one more page before we open it up for questions. So in summary, sustainable growth, performance, collaboration; we talked about continuously improving the quality of our portfolio. We talked about our points of differentiation bringing health and safety and sustainability into the design and delivery of our solutions for our client. We talked about the asset lifecycle, the market sector insights that we bring, the client outcome focus and being able to have global capabilities delivering solutions locally for our clients. When you marry that with strong execution in terms of our evolved operating model, our collaboration, our performance excellence at the centre of everything that we do in order to be recognised as the best and to bring the best of Arcadis to our clients, our risk management, Renier talked about, and our leadership development in terms of making sure that our people realise their potential. When you put all of that together, we are very confident about sustained value creation in terms of organic
and acquisitive growth and the margin improvement that Renier talked about, cash conversion
and the return to our shareholders.

And with that, I would like to hand the floor back to Joost for questions and answers.

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**Questions and Answers**

**Participant**
Teun Teeuwisse, Kempen & Co. I have a few questions, but I will stick to three now. First of all
on your margin target, the 11%, I have made this calculation before with you. If you get Europe
to 10% and I think you stick to the target of reaching that by Q4 2014, then all else equal, you
would already exceed the 11% by 2015. Well you indicated that you will be investing in the
business to support growth, where we will see these investments? What will be the impact on
your profitability in the various segments? And do you also include other negatives ahead
probably on your profitability side? Then on the return on investor capital, of course the target
now is below what has been achieved. Can you indicate how much of that is connected to your
investments in growth? Probably also towards your acquisitions, the criteria you said in the past
were aligned with your group margin targets and return on invested capital targets. Is that still the
case? So will you also adjust your acquisition targets for the return on invested capital? And a
final question also on return on invested capital, what have you been achieving over the years
with the last three big acquisitions that you have done? Are these all at the group return on
investment capital target?

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**Renier Vree**
Yes, thank you. When it comes to the margin target of 11%, indeed the performance
improvement of Europe plays an important role in that. So that should help us to get towards that
11%. Of course to be above 11% we will have to do more than that and indeed we are investing
as Neil alluded to in organic growth, meaning people get involved with clients, so account
managers investments around the value propositions or market sectors. That will take place
around the seven priorities that you have seen in presentation. The amount that could add to
approximately 1% of revenues and of course it has a return in terms of growth and margin by
doing that. That is all part and parcel of the margin target that we have set for ourselves.

About the return on invested capital; not really below what we have achieved I think because we
were at the level—and you can see it in our annual report of between 13 and 14% in the last
couple of years. So to put a clear floor I think in the targets of being above 13% basically confirms we want to at least be at the level where we have been in the past years. And when it comes to acquisitions, you probably know that the target, one of the criteria for our acquisitions is to have an internal rate of return of at least 15%. And we are not backing away from that target. And that we also then support that we remain to have our return on investment capital higher than 13%. And in terms of the return on acquisitions that we have made, the recent ones, I guess the focus is here on Langdon & Seah or EC Harris, Malcolm Pirnie, so the bigger ones in the last couple of years, then these all have achieved the targets that we have set for ourselves. And if you wonder why then is Arcadis not doing the 15% that was the previous target, then the real answer to that is the performance of Continental Europe. That is the one that had the biggest impact on having a return below 15%. And therefore we are also confident that an ROIC of 13% is achievable.

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**Bjorn Krook**

Bjorn Krook, ABN. Just to go on on the return on invested capital, we see the margins moving up at least in your target. Why is the target being taken from 15% earlier to 13% now because your profitability will go up, will there be significantly more capital in the business? Connected with that, is there a working capital target that you would like to achieve over this period of time? Neil, you spoke about consultancy services being a bigger part of the business now. Where do you want to drive this and how will that alter the mix in terms of profitability? Maybe you can speak a bit about how that is going on? And how the catch up effect with the pure play consultancy company is going? And then you spoke a lot about being the best in everything you want to be. Where are you not the best at the moment? Where are the specific areas you want to improve? And then my final question, Renier, you spoke a lot about cash control and those kind of items. Can you give some specific examples on things you would like to roll out in the next three years that will improve the business in those terms?

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**Renier Vree**

Yes. So on return on invested capital, no change to what I just said; we remain very focused on the return on invested capital, so to have that above 13%, reflecting the performance we have had in the last couple of years. What adds to this, when you do an acquisition and you have an internal rate of return of 15%, it typically means at the beginning of the period when you acquire a company, so in the first two, maybe three years, it may be a bit below. But over time when the margin improves and the revenue goes up, then that return goes above 15% and then the total case is still 15%.

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Working capital, we have not set a specific target because we don’t want too many targets out there. But the target of having a free cash flow exceeding net income, basically implies that we want to reduce our working capital. We ended last year I think at 14.9% and we have said earlier that is also a number we would be aiming for, for the short term. And over time we would like to bring it down further. We realise that currently markets are not very easy in that respect. The public sector in mature markets like Europe and the US are slowing down payments. We see that it is less easy to get prepayment from clients in oil and gas and mining. So again those I would say headwinds. We are still aiming to improve by doing a lot of things internally better in the way we manage our working capital.

Neil McArthur

And on the second one around consultancy services, with the asset lifecycle approach we want to continue to build out and develop our consultancy service offering. So in the early stages of development that is working with clients on developing different solutions and being able to look at which solution provides the most value for them, which may not be the original—as originally defined by the themselves as the ultimate solution for a new asset. In terms of an asset that is already in operation or a portfolio of assets that are in operation, think of a set of office portfolios across the world, how can you reduce the number of offices? How can you reduce the square metres? How can you create more productive people by having a more sustainable and ergonomic working environment? And those are all consulting offerings that we continue to develop across different market sectors.

And we have actually applied this to ourselves, so when we look at Europe we took that consultancy service offering from EC Harris and applied it to how we look at our office footprint across Europe, which clients we want to serve, how can we do that more effectively? How could we create a more productive, collaborative working environment and that is part of the new operating model for Europe.

The third question around where we are not the best; we are a very good company. We a top quartile company, but when you decompose that there is always a continuous improvement. Even the best companies in the world continuously improve what they are doing. They look out to the future, they see what is being required by clients and they continuously evolve. If I was to call out a couple of areas that we have got a strong focus on, that is continuously improving our project and programme management and I think I said earlier in the conversation that we have developed a new programme management academy that opens next— Is launched next week
with our first 30 participants. How we share knowledge and expertise and collaborate to win and deliver projects is an important part of our strategy going forward. And continuously building client relationships and how we do our global client account management in order to make our clients aware of the very broad range of solutions that we can provide for them and create more value for their business through working with a limited number of suppliers and in this case Arcadis, in order to improvement their business.

Then cash control…

Renier Vree
Yes on cash control what we have done in the last couple of years that we have beefed up our treasury department in terms of capabilities and size. We used less banks than before. In the past most countries had their own bank to have cash management with. We have centralised that to using far fewer banks that are more important to us and we are more important to them. We have improved the visibility of the insights in knowing the cash flows coming in and going out. And therefore also by having it more centralised we can optimise and reduce our interest costs. That is a trajectory we have been on for the last few years and we continue to do so in the next couple of years as well.

Philip Scholte
Yes, it is Philip Scholte from Rabobank. First of all on your EBIT margin target. Is that a target for 2016 or does that actually go for each and every year in the period? The second question is on your targeted inorganic revenue growth. It seems to be a bit lower than before. Is that a reflection on more focus on organic growth or is it simple mathematical follow up on you being bigger and therefore making it harder to grow percentage wise? And thirdly, can you update us a bit on your focus for M&A. Are you happy with the mix in terms of business line, public/private clients? Or are you still thinking about adding maybe a fifth business line in energy resources kind of areas and potentially looking into Africa for example?

Renier Vree
When it comes to EBIT, I chose my words very carefully when I presented and I said that in the course of the strategy period we want to reach a margin of above 11%. Also recognising the investment we are making to get organic growth improved. So that means that it will not be likely that next year we already would see that type of margin.
Neil McArthur
On the second one on organic revenue growth targets, historically over the last three or four years we have been between two and 3%. And as we alluded we are going to invest significantly to accelerate organic growth to above 5%. That is a near doubling of what we have done historically over the last three to four years. And that has impacted the margin target that we have talked about.

In terms of the focus for M&A, it is not on our radar screen to add a fifth business line in very direct answer to your question, Philip. In terms of Africa, which you also mentioned, we will continue to have our client driven strategy support to where they need help. In Africa we do that for oil and gas today, we do that for mining today. And that will continue to be our focus on Africa at the moment. We have global positions in the emerging markets, Latin America, Middle East and Asia and we believe that there is still room there to consolidate and develop our leadership positions in the markets that we are actually in today.

Philip Scholte
A short follow up if I may on your answer to the question on organic growth. I was actually also referring to inorganic growth. It looks like you are looking at sort of smaller additions to the company than before.

Neil McArthur
No, we continue to look for value enhancing mergers and acquisitions and those can be small, they can be medium.

Philip Scholte
But not big?

Renier Vree
Yes, maybe just to add to that. If you look the last couple of years then the average of inorganic growth has been around 8% or so. So now we said it will be more than 5%, it indicates basically given the increased size of Arcadis that there actually could be of similar size as before, but then
relatively they are a little bit smaller. And we don’t want to force ourselves to have to do large acquisitions just to meet certain growth targets, so it is also I think reflecting our risk management in the way we have set this target.

Quirijn Mulder
Good morning. Quirijn Mulder from ING. I have one question about margins. If you look at the different divisions, environmental, water, etc. you had margin targets for them. If you let that pass or are you still looking at these—say that the environmental makes higher margins than let me say 12 to 13% average compared to let me say 9% for buildings, etc.? Or is it decomposed yet?

Renier Vree
Well that is a good question. We will continue to report about the performance of the regions as well as of the business lines in terms of growth and margins, so no change there. But we did indeed decide not to be explicit with our margin targets per business line externally and one of the reasons is that this is information that is also very precious for other players in the industry. So we want to be a bit careful there in what we disclose to the market. And also when you look back growth and margin is in the end a combination of the existing business, acquisitions, added to that and that is the second reason why we are reluctant to give explicit targets externally for those business lines. But we will continue to report about them in the same way as before.

Quirijn Mulder
On margin or growth?

Renier Vree
No, I mean the real focus is on having the margin of above 11% for the company and of course all of the GBLs are expected to contribute to that as it is for the growth contribution.

Participant
What kind of assumptions have you made for global growth? And if you could break it down on mature markets and emerging markets? Or do you say regardless of what kind of economic growth worldwide we are going to make those growth targets?
Neil McArthur
It assumes that there is continuing progress in North America for economic growth. We see a slight recovery in the European economic situation and continuing the similar levels that we have seen in economic development in the emerging markets that we are currently significant presences in, so Latin America, mainly Brazil, Middle East and across Asia.

James Woodrow
Hi, James Woodrow from The Analyst. You talk about a performance culture and you also talked about incentives on working capital. Could you just run through, under the last strategy review, how people were incentivised in the business and how you intend under the new strategy to incentivise people on working capital, profitability? So how sort of people are working in the business on a day to day basis will get paid and how that is changing?

Neil McArthur
Yes, under the last strategy period the senior leadership group below the executive board, senior management committee and the leaders of the businesses were very much measured for their short term incentive around the profitability of their entity and in terms of the working capital DRO and also the balanced scorecard around what they had to do for strategy implementation.

We are evolving our measurement and reward system. Long term incentive for those leaders is always around our positioning versus the peer group in terms of total shareholder returns. In future for short term incentive we have put in place to stimulate organic growth targets in addition to the margin targets. We have also brought in an overall Arcadis wide operating margin target for those senior leaders that they didn’t have before. And then we are currently evolving our long term incentive programme to align that with the senior leadership group, meaning the executive board, which is currently under discussion for shareholder approval next year.

Willem Burgers
[Willem Burgers]. One more question on your M&A strategy please. The past three years your private sector clients have percentage wise risen to 55%. Is it an objective to further increase that percentage? I think for the past few years you have really emphasised the growth of global clients and I wonder if there are candidates in the M&A who probably focus on just further
increasing your private client sector base. Obviously because growth prospects there should be superior to for instance public clients. Is that view correct?

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**Neil McArthur**

I would say that if you look at some of our important operating regions around the world, for example Brazil in terms of scale now is important on its own. We have seen actually an increase in public sector spending for what I will call social infrastructure. That is exactly the same that we have seen in the Middle East, more public sector clients with social infrastructure, whether that is to do with hospitals or whether that is to do with education, whether that is to do with government facilities. So in the emerging markets we are actually seeing a growth in our public sector clients. Clearly in the developed world, where austerity continues to be an issue, we are focusing on driving market share and growth at our multinational and large private national and international clients.

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**Willem Burgers**

And in terms of M&A, would that be a logical consequence for the focus you would have?

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**Neil McArthur**

M&A we are very much focused on either expanding our core or on the seven priority areas that we have identified. And part of looking at the due diligence is where believe their client portfolio is, how strong that is for the future, what the margin development has been in each one of those client sectors. And then deciding whether that passes what we want for the future.

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**Bjorn Krook**

Bjorn Krook again, ABN Amro. Two follow ups; growing in national resources, is that Vale growing as a client or is that leveraging the knowledge you gain from working with Vale? And how will that impact the current relationship because I think it is an important relationship for you. And then on sharing and leveraging the knowledge within the organisation, what form and informal structures are there being put in place now? How is that catching on? Why is that catching on? Because I know from a number of other companies that it is not really working as good as they might have expected. And how is that filtering through in the DNA of the organisation?
Neil McArthur
So in terms of natural resources, mining Americas is a focal point for us. And we see great synergy creation opportunities where historically in North America our focus has been on remediation for clients in the mining sector, helping them with their legacy issues. In Latin America it is much more about helping international clients, Vale being one of them, develop new facilities in terms of the project management or the engineering of specific elements of that including the transportation elements associated with moving mining products around. So when you just look at that and we have now that both under Zack Smith, our new Executive Board Member, the Americas, we are going to see much more synergy creation between a cross selling of what we do in environmental to mining clients in the South and then bringing the programme management expertise to helping our North American clients that we have in mining.

On the second question around knowledge management formal/informal processes, the first thing to recognise is that we are again investing in what we call these value proposition leaders, who are full time people below the level of the global business line leaders. Their job is to look, together with our client account leaders, as to the evolving needs of our clients and to translate that into improving the current value propositions that we have and then to build a network of individuals across the globe with the right capabilities in order to deliver those solutions for our clients. So we have identified those people. We have put that network in place. And then we have to continue to upgrade our IT in order to enable more effective transfer of knowledge and expertise. But for a client situation it has to be both enabled by IT but also physical presence of the right people in order to win and deliver that work.

Sandra van der Meer
Sandra van der Meer from Delta Lloyd Asset Management. I think it is clear that a large part of the growth is going to come from emerging markets now, going forward. And I also think that some perceive this to be more risky maybe than growing in developed markets. So can you elaborate a bit on the specific risks that you see in emerging markets and what you do to counter this?

Neil McArthur
Well first of all remember the first element of sustainable growth is expanding our core and in our core today emerging markets is 24% of what we do. So the rest is in the developed world and we will continue to do that. And remember business advisory is one of the four value propositions
that we are emphasising and we believe the growth there is in advising our clients in the operational part of the asset lifecycle. So I don’t want to give the impression that all of the growth is coming from emerging markets. In terms of risk management, I think Renier highlighted that we have a very clear and consistent client go/no go process. And a project go/no go process with escalation levels all the way up to the executive board depending on the client and the project situation.

Participant
Maybe looking beyond this three year, if you look at your free cash flow over net income and maybe somewhat more muted inorganic growth than we have seen in the past, whereas of course you also did some issue of shares when there was a negotiation. Are you considering to limit your dilution from that respect? Or are you even, if you are cash—if there is a moment you are going to reach debt free level, which is not unusual in the engineering sector, to look at share buybacks or whatever?

Renier Vree
Yes, about the cash flow, the free cash flow of course is not impacted by the acquisitions. I think the reason why we typically use equity for the larger transactions is that we buy the shares of a company, the people are the owners of the company, of partnerships and by bringing in equity we retain that sense of ownership and more people, especially senior people act like shareholders, the better it is for company performance. So we definitely want to continue, where possible, to have the transactions also financed through equity and not just for de-risking it, but also to keep this sense of ownership. And if you do the math and you look at the more than 5% inorganic growth then I think it will take a while before our net debt becomes negative.

Participant
A question specifically on Asia, you seem to be able to track actually the IRR of your previous acquisitions and I think you are operating there with various companies. I can imagine that there is going to be tension between collaboration and in the end integration. How do you look at that in Asia?
Stephanie Hottenhuis
I will answer because I am responsible for Asia. Indeed we have various operating companies but that does not impact the client facing purpose of all we do. We have targeted our clients. We have segmented them. And we have organised the teams across our operating companies to deliver to that. We also set a synergy target that these teams have exceeded. We have been reporting on that to you. Actually the specific one for Asia was $35 million for this year and they have exceeded it and that is because there is certainly a structure of operating companies, but what you need to do is to organise how people are dealing with their clients and that is going very well.

Joost Slooten
We are going to break for coffee, just to get refreshed and then we will be back here at exactly 11 o’clock and for the online audience we look forward to speaking to you again later. Thank you. And for the in house audience the coffee break is just outside here.

[Coffee Break]

Presentation

Joost Slooten
Okay, I suggest we get restarted and the word is back over to Neil McArthur. Thank you.

Neil McArthur
Welcome back everybody. In the first part of sharing our new strategy both myself and Renier Vree shared what I will call the corporate strategy part of sustainable growth performance and collaboration. For the next part we are actually going to go through each one of our executive board members who is responsible for either a global business line or one of the new initiatives like big urban clients and is going to share how we have translated the corporate strategy into the detailed strategies for our global business line and multinational clients and big urban clients. And with that I would like to hand over now to Stephanie Hottenhuis who is going to talk first of all about our global business line, buildings. Stephanie?
Stephanie Hottenhuis

Thank you, Neil. Good morning everybody. I will take you through buildings and the multinational clients programme. We start buildings with this picture of Forum 66, which I hope that you find as aesthetically appealing as I do. It is a beautiful picture but beyond that it also captures quite symbolically a great part of what I will be talking about. It is a project in the emerging markets. It is a mixed use scheme. And mixed use schemes are going to be part and parcel and very much a focus of what we are going to do.

And what is also important is that in these mixed use schemes we have a very unique position in being able to cover the whole value chain from master planning to cost and project management and business advisory in a performance driven way. It also corresponds to our passion to create a better quality of life, because these mixed view schemes are extremely important to making Chinese cities, second and third tier cities, more attractive to their communities. They are not only a place to live and shop, but also recreate, work, there are offices there. They are really a magnet for the community. And from that point of view it also appeals to our passion, to create better places for communities to live.

Buildings is the fastest growing global business line. It now accounts for 27% of our portfolio on a gross revenue basis and has shown very strong growth; as you see 32% on a CAGR basis over the last three years. That is not a surprise as we already alluded to in the first part of this discussion. The buildings global line was strengthened by two very significant acquisitions; EC Harris joining us in November 2011 and Langdon & Seah in April 2012. Both of these mergers and acquisitions have been very logically pointed towards emerging markets. And this is not a surprise and we already spoke about this given that this is where we see a great proportion of our growth in the coming time.

What this picture captures is our view of the market. This is not the Arcadis growth, but this is the external outside in view of the development of buildings, the accessible market for buildings in the coming time. Whereby you see that there is growth in all of our regions where we are operating, but the strongest growth is in emerging markets. The delta between the market now and the market in three years time is very sizeable in Asia. And then if you really ranked them, you will see that we also see ample opportunities for growth in the Middle East, in Latin America, in North America and in Europe in that order. So we do see growth in all of our markets.

In buildings we continue to win iconic projects. It is one of the most photogenic global business lines that we have because we can present wonderful pictures. One of them that I would like to briefly show you is the City Crossing in Shenzhen. What is really important there is coming back
to the first part that Neil presented, is our knowledge about the sector. What are the commercial drivers of mixed use? How do these developers make money? Of course it is beautiful and our architects love to create iconic and beautiful buildings, but the first question they are trying to answer is, how is the developer going to make money with this building. And that is the priority. And that is what differentiates us.

And this one, the City Crossing in Shenzhen is really another one of these community based, mixed use schemes that create a place for people to go and so important to creating the texture of the whole city. In the development of second and third tier Chinese cities where we do see a lot of opportunity, in fact these mixed used schemes are creating the grid. And after that the grid is expanding from these mixed use schemes. But they do have to differentiate. They compete among each other. And that is why our knowledge of the commercial drivers of mixed use and our performance driven design, not design per se, but design that will enhance the performance of the mixed use scheme actually make us unique and differentiated.

A second one, the Kingdom Tower in Saudi Arabia, is one that we also communicated about, because it is going to be the highest building in the—the tallest building in the world. It is going to be one kilometre high; some claim that with the antenna it is going to be 1.2 kilometres high. That will remain to be seen. What you see there in the picture is the viewing platform which is at about 630 metres high that you can walk about and part of that platform is going to be glass so that you can look down and see how high you are. And the unique thing in why we got this project is that we had an excellent programme and project management skill in our operations that we married to our high rise design expertise. Again another one of these that in isolation we wouldn’t have won it and in collaboration we did. We differentiated and we did.

A third one as an example is transforming retail to schools in the United Kingdom. Actually the colleagues in the UK have coined a new word, which is eduretail. And the issue there is that there was an enormous need for schools and for space for schools in accessible places in communities. And there was excess real estate in retail schemes. So what they did is they came up with this innovative solution and innovative commercial model for investment where they served two clients and provided a solution for two different sectors based on the asset knowledge of both. How can you transform retail into a school? And there are a couple of these communities for example in Bradford or in London that have benefited from that scheme. So a very tailored solution based on asset knowledge.

So where are taking buildings in the coming time? Over the last period through our strategic review we have taken substantial effort in order to find these places where we can create most
value with. And they are presented there; programme management, business advisory and further strengthening our market leadership position. We already spoke briefly about programme management. We already have very strong programme management expertise, but we see the opportunity is even bigger and we have the opportunity to accelerate. So we will accelerate our programme management knowledge. Neil already mentioned that we are starting with our own internal academy, but we have done a detailed segmentation of what client groups actually benefit and how do we tailor our programme management solutions towards these clients.

One type of programme management solutions as an example is tailored towards our multinational clients. We call it a portfolio type of programme management. These are schemes where we, for one client, actually are able to deliver in a consistent way with certainty of delivery of the outcomes that they wish across the globe. So there is one coordination heart and through that programme management all the individual projects along the globe are delivered. To give you an example, banks in Asia roll out both of their retail and office schemes in this manor and are our clients and we have framework agreements to manage these. We have announced our framework agreement with Philips which is very much along the same way. Out of one expertise actually deliver consistent quality and consistent methodology of how do you manage projects, how do you procure your suppliers in each individual space around the world so that our clients become top quartile?

A second type of programme management is more geared towards the big urban client that Friedrich Schneider is going to talk about. This type of programme management is focus on big urban schemes and intends to deliver the infrastructure, either physical—roads, metro, water—or social—education, healthcare—for these public authorities in order to make their communities live. This is another type of programme management that for example we have applied very successfully in the Middle East and the big programmes in the Middle East we will continue to support and grow in this manner.

A third type of big programme schemes is the one that probably you now have heard most about, which is the single big event. Olympic games, world soccer, these are single events that require a lot of deadline driven investment. And indeed through our programme management expertise we are able to support clients to deliver on time and make the event a success.

Secondly business advisory, we spoke about it briefly in the first part. It is really a catalyst to create exceptional outcome for the client. You have heard a lot from us talking about higher in the value chain and this is our next step on that journey of being higher in the value chain. What it really means, we already said about 30% of our work is consultancy, but what it really means is
that we are looking for adding value at the beginning of the processes when the schemes are being formulated. For example assisting a Malaysian client in finding out how to formulate a development scheme, how to fund that scheme, how to put the material together to make it bankable. The project hasn’t started, but the investment process has started. And it is important for us to play a role in that particular investment process so that we are early in the game. How does this add value to the shareholders? Because you are early you have the opportunity to stay involved all through. That translates into growth. And also because you are early the margins are more than averagely high.

And lastly market leadership. We have strong positions in areas that we want to continue to invest in. This is expanding the core; coming back to the point about expanding the core. Performance driven design, cost management, project management is one of these areas. We are recognised as being the best but we have to continue investing to continue to occupy that spot. Our market leadership positions in Asia and the Middle East and our sector knowledge in retail, in office and in healthcare. In these areas we will continue to invest in order to stay on top.

I am now going to move towards our multinational clients programme and how we intend to add value with the programme. This is a snapshot of many of the world’s largest multinationals that are our partners; a very good spread among the mining, oil and gas, chemical and pharma, financial institutions, conglomerates and the automotive sectors to which we really deliver seamlessly across the world. Vale was already mentioned. We work for Vale on four continents. For a couple of the other cases you see there that we have served and helped these clients actually consistently across the globe in almost all continents and locations.

Where the main focus of the multinational clients programme is going to be in the coming strategy period is our focus to capture superior growth by delivering exceptional outcome. It is all about outcomes. It is all about translating what we do into results for the client and we intend to do that first of all further strengthening our sector leadership position. This is a strong differentiation. For us to know and to be innovative about the needs of each of the sectors that we have chosen to be a leader in is very important. We have recently announced two important global appointments for the oil and gas sector and for the financial institutions sector and this is how we organise the leadership and the accountability for growing these sectors. These are the people, the leaders who would combine that knowledge and reapply it in new clients and situations in their sector.

We already spoke about the strong focus across the natural resources sectors where we see many opportunities for growth and we have a very strong starting position. And through our performance management programme we really want to become the best in account
management excellence. That has a lot of detail of how we understand the client, how outcomes driven we are, but also how structure our processes. How we structure our pricing. So there is a lot of technical excellence or commercial excellence that we would like to pack behind this sentence there.

A second focus for the multinational clients programme is going to be logically emerging markets in order to capture the growth in emerging markets. It is very clear that we are on a journey to be the partner of choice for our multinationals who are investing in emerging markets, but we are adding another perspective and that other perspective is that we want to expand our multinational clients programme with multinationals originating from these emerging markets. 180 from the top 500 fortune companies actually come from emerging markets. And we have started developing the relationships and the partnership arrangements with these companies to service them across the globe. We believe that we have a very strong edge because we have the experience of servicing multinational clients. We know how to do that.

Lastly, asset lifecycle solutions; Neil already talked about the differentiation that we want to gain through the asset lifecycle and being involved throughout this asset lifecycle working for the client at every stage of the needs that they have in their asset. In this respect business advisory, again being early, and programme management being consistent, being aware about the risks, managing the client’s risk but also guaranteeing outcome, the security of delivery is our ways towards differentiation. These are the three focus areas for the multinational client programme.

Thank you.

Questions and Answers

Philip Scholte

Philip Scholte from Rabobank; a question on your buildings segment. Can you say something about the cross sell or combined use of your design or architectural design capabilities from RTKL and your programme management services, especially maybe in Asia? Is there a lot of cooperation between the two in the region? And the second question is can you split out your revenues in buildings between business advisory and programme management and architectural design maybe?
Stephanie Hottenhuis

Yes. On your first question about collaboration in Asia, it is a well pointed question because traditionally mature markets, the cycle of architecture and the cycle of implementation are traditionally regulated and somewhat separated. In emerging markets in fact it isn’t, especially when clients/developers want a total delivery concept, they actually can come as one package. What is important also in Asia is that we start in our architectural practice very early though master planning already and with master planning your are immediately discussing with clients the financial feasibility of their scheme, so this is a very natural—I wouldn’t even call it a cross sell, but it is a joint solution between our business advisory practice and knowing how to make these schemes profitable. So what mix do you need? How much residential? Where you put your retail outlet; which outlets would you engage? And so on, with the master planning.

So this where we do see indeed a lot of opportunities for collaboration and in practical terms we have developed a specific tailored strategy for mixed use, which is very client driven. We have listed the names of the top ten developers in Asia; five China, five outside. And we are really in a very consistent way developing a relationship with them so that we are early in the game so that we take a consultancy seat at their table and that we can pull the value chain from master planning all through cost management in which we are very strong with Langdon & Seah.

And then the second question about a breakdown, I think it is almost not possible to give a very sharp division line between what is business advisory and what is programme management. At a certain moment they actually transition into one another. If you are early through an advisory activity and you can scale it up to organise the programme the scores will be one. If we miss the moment and that goes externally to the market, to tender, we haven’t done our job. So it is in fact not good to set it through at the middle. It is a continuum.

Philip Scholte

Is there any way to quantify the number of projects where you are involved in all these steps?

Stephanie Hottenhuis

No.
Neil McArthur
We track very carefully internally the opportunities that we see and the pipeline of opportunities for future work. We risk weight that in terms of thinking what is the probability of success of winning those projects? We then track and we have been very clear and transparent to the market around the synergies that we have created in terms of synergy bookings. So we track it at the opportunity level but I think that is not the kind of level of detail that we would like to share here on our strategy day.

Teun Teeuwisse
Teun Teeuwisse, Kempen & Co. On your asset lifecycle solutions, can you give an indication of the project risks that you are running in that business? Especially compared to the other businesses of course and the regular projects in all the other business lines.

Stephanie Hottenhuis
Yes. Well we have a very consistent overall policy for project risk. The project go/no go actually applies to any portfolio and any project, not—there is not specificity.

Teun Teeuwisse
There is no specific risks that you run in this type of business?

Stephanie Hottenhuis
No, we review them.

Teun Teeuwisse
Alright. And you mentioned that you want to of course move up in the value chain, but what does it mean for cyclical of this business? Does it mean that your business becomes more cyclical if you are trying to move up more in the value chain? Basically the buildings industry I think is a rather cyclical business. You mentioned that it is the highest growing business right now, which makes sense. But it has also been declining quite steeply, but moving up in the value chain, does that also make your business less cyclical or does it make the business more cyclical?
Stephanie Hottenhuis
If you move up in the value chain, you are much able to advise a client how to deal with the cycle. So in certain areas you will be advising how to be more bullish on CAPEX and in the other part of the cycle you will be advising how to manage their OPEX. Right? So it is in fact making you more resilient to cyclicality.

Teun Teeuwisse
Yes. Exactly. That is what I wanted to ask.

Participant
Okay, only the multinational business, is there any way you can disclose on how many companies are there, how big a part of the revenues it is? Because there is a very interesting chart with a lot of names on slide 36, but less names on slide 37, so how are we going to get all the names with all the check marks behind it? Have you grown the share of wallet with these clients? So your market share within the client, has that grown? How profitable has it been? And where do you see room for further roll out?

Stephanie Hottenhuis
Yes. So indeed the multinational client programme is more than averagely profitable. We are achieving double digit growth figures with our chosen multinational. And we have several tiers of multinationals. We have the super tier which is around the natural resources and chemical and pharma, but we also have regional multinational clients that are not managed at a corporate level but are managed within the level of our regional businesses. So I don’t think we are ready to give you our proportion of the business, but it is significant and it is growing with double digits.

What we can disclose is that on the tier the corporate programme is 40 clients, but again this doesn’t capture all of our multinational knowledge, because in each of the regions we have our dedicated additional multinationals.

Participant
Is that group growing, the 40 clients? Or that will be a niche way to grow the business, just add more clients so how is that progressing?
Stephanie Hottenhuis
We are reviewing the portfolio every year. So every year we are looking at whether we believe that that is a client really worth investing additional resources in and whether we can capture additional share of wallet. But any one that we add we are conservative on adding we are not measuring as organic. It is non organic. So this is not a way to achieve our organic target.

Neil McArthur
Just to clarify that. In the same way as when I explained big urban clients is something that we piloted in the US and in the UK. We have been piloting bringing the full range of Arcadis capabilities over the last year to the top tier of our multinational clients. On the success that we saw there with double digit growth more than average profitability and we have extended that same programme to the 40 clients and as Stephanie said earlier in the presentation we are adding to that a number of emerging market multinational clients where we believe that we can differentiate with our approach that we already have established. And the fact that we are more global than any of our peers and able to serve them on a truly global basis as they become global multinationals themselves.

Participant
And is there one specific business that you use as an entry point into a new client and then move from there? How do you develop a new multinational client?

Stephanie Hottenhuis
We definitely have criteria and we are very exigent about these criteria, about our strategic fit about the value that we add, about the strength of our relationship, about the health of their own development and projections, they need to be growing as well. So it is not one criteria, there is a whole set of criteria.

Neil McArthur
For example where we today are with a—historically have been an environmental play with the global oil and gas major, with the full range of capabilities that we now have and a collaborative approach to growing our business on a global basis we brought in our business advisory capabilities to that global oil and gas major and we are helping them with their asset productivity
in looking at their office portfolio on a global basis and also bringing in our interior design capability in order to help them get more out of the office space that they already have or reduce that.

**Quirijn Mulder**
Quirijn Mulder from ING again. With regard to the MNC programme, how instrumental is that, the growth of the multinational clients in your overall growth of the company? And what let me say percent— Do you have any percentage of revenues in mind and are you willing to share that with us for 2016 for example?

**Neil McArthur**
I think Stephanie was very clear that today the programme is above average profitability and we have double digit growth in the multinational programme and we are expanding that. Today the programme is between 15 and 20% of our total revenues and with those kind of growth rates you can do the math.

**Participant**
Do you have specific commercial contract structures with these global clients and how do you go about that?

**Stephanie Hottenhuis**
Yes, we do. We normally have, with all of the global clients something that we call frameworks. These frameworks are important because they cover a variety of single projects that we can do around the globe and the type of contract that structures the relationship.

**Participant**
And that means that you have global price negotiations or things like that?

**Stephanie Hottenhuis**
Yes. So all of them have a rate schedule; all of these contracts have a rate schedule and dependent on what the services are and where they are, you have in variance regional fees.
sometimes, you sometimes have country based fees, this is dependent on the specificity and the elasticity of the price and that is a negotiation outcome. Yes.

Participant
Because these large clients are generally very good at say central purchasing, how do you try to get away from too much pricing questions within these contracts?

Stephanie Hottenhuis
Yes, indeed, our counterpart very often is a very strong procurement function. But that doesn’t mean that these accounts are not profitable. There is a combination of volume work that we do against these larger volume agreements, but there is also the other aspect of programme management and business advisory that it is higher in the value chain and that is why more attractively priced. So at the end the portfolio needs to make sense. This is one part. The other part is that tightly priced contracts do not necessarily translate into lower profitability. This is not a one on one relation, because if the volume is there we can organise ourselves better. We can standardise packages. So discounts, do not translate them immediately into lower margins.

Participant
And when these contracts are signed, are there other let’s say larger competitors of yours that are also bidding for these types of contracts?

Stephanie Hottenhuis
Yes. A lot of these contracts are competitive, frameworks are competitive.

Participant
And can you tell something about the main competitors you see there?

Stephanie Hottenhuis
In every portfolio they are different. I mean it would be a very, very long list if I would go all across the world. Yes. Very different in environment, in building. Yes.
Participant
But for these global contracts there are probably very few that can actually deliver that.

Stephanie Hottenhuis
Yes, but they are different for a portfolio. So we different names in environment and different names in buildings and different names in programme management and different names in water; I think that one of the advantages that we have is that we have this broader portfolio.

Neil McArthur
And that is why it is very important that one of the three elements of our strategy around collaboration means that historically where we have had very strong relationships for example with a mining client, either on the programme management side in Brazil or on the remediation side in North America, that with those clients where we have the client access that we can make them aware of this broad range of capabilities and therefore solutions that we can provide for them as Arcadis. And through that created level of collaboration we should be able to enhance our share of wallet at those clients, our market share at those clients and serve them on a global basis.

Bart Remmers
Maybe to tap in— My name is Bart Remmers from HSBC. You talk a lot about collaboration and how do you provide a platform to your colleagues around the world? In everyday practice, if somebody finds out something in Brazil that is really useful, how do you get that over to let’s say China or somewhere else in Asia? Is there an IT platform or can they just use an app to get that information across?

Stephanie Hottenhuis
So it is both formal and informal. And the formal is certainly an IT platform where you can use in posting. The formal is also the accountabilities that Neil already spoke about, for all of our key accounts we have a leader, a global account manager and you are well advised to go to that global account manager if you believe that you have a lead with that client or else. Then we have the value proposition leaders who are accountable for holding the technical knowledge of what we deliver and these are formal accountability networks, informally as well we of course do a lot
of networking. We bring people together, we make sure that people know each other. We have training for every general of leaders that you can imagine. And we also move people around. So we move people physically to be working in our Asian operation or our Brazilian operation and there is a natural broker.

Joost Slooten
Thank you, Stephanie. In the interests of time we are skipping the online questions and group them at the end. Just for the online audience we will give you an opportunity at the end of the three presentations. And if I could now go back to Neil to introduce the next speaker.

Presentation

Neil McArthur
Thank you, Joost and thank you Stephanie. So it is my great pleasure to introduce Friedrich Schneider, Executive Board Member, who is going to take us through both infrastructure and the new initiative, big urban clients. Friedrich?

Friedrich Schneider
Thank you, Neil, and welcome to the world of infrastructure in Arcadis. The picture that you can see here to introduce is the entry port into Brazil. It is the Guarulhos airport and if you have booked your World Championship tickets for the football championship, this is the most likely port you are going to enter.

Well this airport has always been a little bit of a bottle neck and this is why it has been extended on the right side you see the expansion of the project which is going to take the capacity of the airport from 30 million people to 60 million people. Arcadis Logos our 100% subsidiary in Brazil is project managing the whole expansion, including the road access, including the terminal buildings in the back. And we all hope that it will be opened on time so none of you will have to queue unnecessarily.

Well, but looking at the entire Arcadis portfolio you can see here that 25% of our business in Arcadis is infrastructure. And since we are leaders in Europe, Latin America and have a good
niche position also in North America, we have been able to grow at a 13% annual compounded growth rate over the last three years, which I think is quite impressive.

Looking at the addressable markets for infrastructure services from Arcadis you see that the world is a little bit split. On the one hand we have the mature markets in North America and in Europe, which are relatively flat and are not expected to grow very much on the create side. These are all numbers that is for the create, for the capital expenditure projects. Whereas Latin America, the Middle East and Asia are growing substantially. So this is where we are going to focus our efforts; in Latin America and in the Middle East. Whereas in Asia we are going to be very selective, because in Asia some of the big markets like China, like Indonesia and like India on the public side are not very transparent, so difficult to tough for us. But on the private side that is not an issue so we will focus mostly on ports and on airports in Asia.

Well we continue to win very iconic projects in infrastructure and our real expertise is quite well known here from the Netherlands we do have very deep knowledge in terms of catenary systems in terms of track in terms of safety systems and communication systems and this thorough technical knowledge combined with the environmental permitting and planning situation in the Netherlands allows us to deliver projects such as the Hanzelijn line which transports about 30,000 people every day on time and on budget. But not only in the Netherlands—and this might be new to you, but not only in the Netherlands we are involved in major rail projects.

The underground in Santiago de Chile for example, we are the designer. We are doing the programme and project management for a major urban transportation system in Los Angeles. We have been involved in the contract management of the Dubai metro. We are involved in the project management of the Doha—of two lines in Doha and are targeting similar projects for the future at the moment.

Looking into a completely different region and a different sector, looking into mining in Mozambique and Africa; well here we do have the capability on the one hand of a very deep sector insight of how to handle large volumes of materials, combining that with the local capability which we have established with a joint venture partner in Mozambique in order to establish a handling port for Vale. And we do that not only in Mozambique but we have demonstrated to Vale that we can do that around the globe in a very effective way. We have installed a similar system for iron ore pellets in Oman, which is in operation for a year and a half now, by the way having saved Vale about 200 million in their investment by being earlier than schedule. We are currently establishing a similar system in Malaysia and there are other targets for Vale where we believe that we are going to have an excellent chance of building those.
Finally, going further into the asset wheel, going onto the operations side, the efficiency and effectiveness of transportation assets is very important in mature markets. And a good example for that is the traffic management that we are actually delivering in the United States. Not only there but also in Europe. And here we are one of the leaders in combining our practical expertise across transportation systems with our conceptual design capabilities and therefore improve mobility, efficiency, safety of roads, of transportation systems and also air quality.

So where is the future of infrastructure in Arcadis? Well we are basing our strategy on our strong local home bases, we are integrating our solutions with other business lines and we are focusing on growth markets. So our leading positions in Europe, Latin America and the United States, which we have established in rail, roads, ports and aviation, we are able to leverage those into the developing market. And if we go into mining then again it is rail, it is roads and it is ports that are needed in order to handle the huge quantity of materials in order to transport the materials across the world. We are integrating our solutions together with other business lines where we have strong capabilities in environment and also in water and that is providing better solutions to our clients. As a catalyst we are using business advisory and programme management in order to delivery higher value to our clients. And finally we are delivering solutions throughout the asset lifecycle from CAPEX to OPEX in order to cover the mature markets as well as the growing markets in the emerging economy.

So far about infrastructure and that takes me to another interesting client and that is big urban clients. You probably all know that by 2030 about 70% of the world population is going to live in big metropolitan areas. And that is a big challenge for these cities that have to digest that influx of population. And when we are looking around the globe, we have realised that Arcadis maintains established positions in 12 of those dynamic cities that you see plotted here around the world. And this is a real global network. And we have a proven track record of delivering iconic projects in these cities already. So we do have a very good infrastructure there. And we are going to address urbanisation and sustainability challenges with those urban areas in order to bring the best of Arcadis, the best of our capabilities in order to support them and to develop them.

I think what is not yet fully understood is that these cities are actually competing against each other. They are competing for the highly mobile, highly educated workforce. They are competing for the high end employers. They are competing for high end education, high end healthcare, high end cultural events, formula one, football, concerts, museums. If you are looking for an example at the Middle East, at the moment what is being built at the same time is Abu Dhabi,
Dubai, Doha, Jeddah, just to name a few. And they are all competing for that. They are competing for the same thing. And this is where Arcadis can help. This is where the solutions that Arcadis can provide is going to be very helpful for their development. And therefore we are going to use our local leadership positions, combined with the global network and thought leadership in order to be the partner of choice in sustainable urban development. We will focus on bringing competitive advantage to these cities. We will bring together the public and the private sectors, for example by bringing private sector financing capabilities into these projects. And we will form strategic alliances with suitable partners and thereby we will create and bring investible solutions to life that is going to improve the quality of life of people living in these urban areas.

I am happy to take questions.

Questions and Answers

Philip Scholte
Philip Scholte again from Rabo. First of all I am missing Utrecht as a big urban centre. My question actually is, I am a bit surprised in infrastructure to see you talking about the leading position in the USA because I was actually of the opinion that you were not that sizeable or big in the US. So how would you define that market, or is that in a specific segment that you think you are actually leading? And can you talk a bit about how much of your total infrastructure business is still—I call that local, but related to small projects, small, local, rural type—well you know what I mean I hope.

Friedrich Schneider
Yes. Well coming to the US; in the United States we do have a strong position in the Midwest around Atlanta, where we are one of the significant players and on a national level our intelligent traffic management capability is certainly world class on a national level and we are applying that in the various big cities like in Los Angeles, like in Chicago or in New York. So the US market is obviously huge, but in that region I think we still have a leading position.
Neil McArthur
Just to add to that, one of the seven priority areas is programme management and one of the examples that Friedrich talked about was the metro system in LA where we are doing project management for that. And we see our opportunity to create more project management and programme management around infrastructure because as we know in the US anybody that has driven on the roads, they know that there has been a lack of investment historically and we see that as a growth opportunity as well.

Friedrich Schneider
Regarding the question about international and local, well all infrastructure projects are naturally implemented locally. So even if you are talking about the metro of Santiago, of course this is a local project, but the difference that we can make is by bringing in for example our French tunnelling experts and station experts and those references into the project by combining them with low cost engineering capabilities that we have in Romania in order to be cost competitive and then all of a sudden, yes it is a local project, no doubt, but it is enhanced with international and global knowledge and driven also by lower cost engineering. So I don't think it is— Well if I answer your question directly, it is still 100% because that is the nature of the project, but by networking and by integrating the global system, I think we can play the difference. And we have shown that in many projects. Neil mentioned the Paris, the Grand Paris in Paris. I think we can see the difference here also in the Zuidas project in the Netherlands and also in the LA project.

Philip Scholte
Yes. Well what I am actually trying to get to is I understand that all projects are local, but I mean everything is a big local project, what I am really trying to find out is how much of that infrastructure is still well a really small project. One engineer taking a couple of hours to design a roundabout in The Hague?

Friedrich Schneider
No we don’t—we basically don’t do that anymore, because that would mean that we would compete with a local design outfit of five or ten people and that is not the kind business that we are addressing. We are clearly addressing the top projects in the market because that drives utilisation and then we have a suite in the medium sized bracket.
Teun Teeuwisse
Teun Teeuwisse at Kempen. You mentioned that in Asia there is very limited transparency in the public sector, but what would your addressable market be if there would be more transparency and is there any outlook that transparency is improving there? And a second question is on the big urban clients; what I didn’t fully understand is who is your counterpart when you are addressing the big urban clients?

Friedrich Schneider
Well coming to Asia the transparency issues I think are known. The market would be a lot bigger if those transparency issues did not exist, however, I think we have to live with the reality and while we see that the governments are continuously trying to become more transparent, for us as a publicly listed company, it is simply against our business principle to enter into these situations and I think we should also not get our staff involved in any conflict at all so that we rather back off.

The other question about big urban clients, well the client basis is going to be the city and the various departments in the city. The client can also be private developers that are trying to develop certain areas in the city and are trying to build an asset in the city which is privatised. So we can play on both ends and by providing integrated solutions to the city, we feel that we can be more efficient and effective which runs down cost of investment and we can be much more inclusive in terms of urban planning and space planning.

Teun Teeuwisse
What do you tell your account managers in big urban clients, who should they start talking to? To the cities or to the private developers; I can imagine there is a wide range of clients that they can talk to—

Friedrich Schneider
Yes. They will start at the planning department, because that gives us the master planning of the city. They will at the same time also try to talk to the mayor’s office in order to see what has the priority. They will at the same time also talk to local and international investors in order to see what their appetite is and thereby try to strike the deal. And this goes from business advisory, trying to advise them what is the best combination of solutions for the city and then from business advisory we can drive it down into possibly programme management, project management and into design.
Teun Teeuwisse
Could you argue that big urban clients is just basically all of the concepts that Arcadis offers but on a very concentrated area?

Friedrich Schneider
Well it is really taking our solutions into a next context. Instead of selling one solution after the other, we are trying to combine them, wrap them up and provide a complete integrated solution which is much broader and which is much more attractive for the city.

Bjorn Krook
Bjorn Krook, ABN. A number of these large cities are in China. I understand that the water capability of Arcadis in China are not that big. How does that work? Because obviously you can't offer the water services that you would like there. Are we going to see a ramp up there and how would that work with the transparency issues that you just highlighted? Also I can imagine a lot of these cities wanting the same thing, so they all want to expand their airports. They all want big new theatres etc. So how do you keep them—how do you work between those cities because it is quite easy to advise everybody a new airport brings in lots of work, but in the end nobody gets happier. So how does that work? So if you work for one city, can you work for the next one?

Stephanie Hottenhuis
I will take the Asia question and indeed we selected a couple of cities in Asia, two of them in China. Shanghai and Wuhan and both with a very clear rationale; actually Arcadis has a very long term relationship with Wuhan already with the Design Institute of Wuhan. Wuhan has a partnership agreement with Arnhem. Some of you will remember that this is where Arcadis came from. So the roots go quite deep. And there are a lot infrastructural and planning needs there. There are water needs. Indeed Wuhan also plans an airport and we do envisage that we can assist and work together with these local institutes in order to improve that city. It is a typical second tier city that would need a lot of infrastructure, physical and social infrastructure, in which we can help.

A different rationale for Shanghai, where master planning is basically a public authority responsibility... But the commercial developers in China are very strong, very powerful and our
selected clients, so that is why we also selected Shanghai. There is lots of redevelopment that will take place in Shanghai in the coming time. Shanghai is shedding its old industrial areas and redeveloping them as well. We have lots of experience with redevelopment and this is the type of expertise that we intend to offer.

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**Teun Teeuwisse**

But I hear a limited water offering and that was actually where I was referring to. Are you offering water services? Because again my understanding was there was no big water presence in Asia.

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**Stephanie Hottenhuis**

Yes. We have just started in water presence and in water, although our presence is small in China, you know that we are very big globally and what we are looking at right now is the type of expertise in advisory that is very tangible. These are people who can easily travel and advise any client, including a Chinese client, out of our capability in the Netherlands or in the US.

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**Friedrich Schneider**

Well with regard to airports, our entry point is going to be business advisory where we are advising the client, which in China can also be a private investor, about how to configure the airport. And as you know today airport is basically a shopping mall that is generating most of the revenues and to get that thinking into the clients in order to make the investment worthwhile is our entry point. And from there we then move down the value chain in terms of programme management and cost management where we have the capability on location so to speak with our strong local capability of Langdon & Seah. We will not go into the design, because that is done by local design institutes. So we stay at the high end of the value chain.

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**Luuk van Beek**

Luuk van Beek, Petercam. I have a question about what you mentioned about sending more integrated packages for cities. I assume that you also want to draw on some skills in cross selling from other regions or other cities. To what extent is your organisation ready for that or do you need to reinforce your collaboration mechanisms and transfer skills. How much time do you think you need for that to become effective?
Friedrich Schneider

Yes, very good question. We have adapted our organisation and we have appointed one of our colleagues as the director of big urban clients who is going to pull all the global know how together and who is going to make sure that the best solutions are brought to the various cities. And that we are able to cross sell our references. So while the delivery side and the sales side is still a very local play because it is based on local relationships, we are going to bring in various solutions that we have already implemented on a global scale into those cities. And I think we have already done a lot there because as you know we are very active in Qatar for example which is going to feature. We are very active in New York City. We are very active in Amsterdam, so all these examples can be pushed into other big urban clients.

Martijn Donders

[Martijn Donders], Kepler Cheuvreux. Can you elaborate why you have selected 12 cities and not 100? And what the timeframe is of being successful in 12 and then expanding into 20 or 30?

Friedrich Schneider

Well I think we indeed started at around 100 but then basically narrowed it down, asking ourselves where do we have a strong local position. Politically where do we have a strong local position in terms of capability? What is the direction that this city goes? Also the question are they flexible in procurement or are they completely inflexible in procurement? And so on. So we had a long list of criteria and these 12 were the ones that we call Wave One which is the target for 2014 to have city executives up and running by the end of 2014; half that about in the first half.

Neil McArthur

But in the same way as we explained how we piloted with three moving to 12 moving to a greater number, in the same way as with the enhancement of our multinational client programme we have gone from a smaller group to a larger group and we will continue to extend that and that is part of our organic growth investment. And we have showed we are increasing our operating margin target to greater than 11% while investing for growth and you have to—and that is our job as a leadership team is to find balance between driving organic growth through investment from our P&L while delivering improved returns to our shareholders.
Presentation

Neil McArthur

Thank you, Friedrich. I would now like to introduce for the last section our Executive Board Member, Zack Smith, who is responsible for the Americas but also for our two global business lines, Environmental and Water. Zack?

Zack Smith

Thanks, Neil. I am going to talk about environment first and then— I have got to stay behind the mic. This is really hard for an American, especially an Italian American. I will talk about two things, environment and water. This project here, I think is really classic Arcadis. This is Reese Air Force Base. The government had set aside 50 years and $80 million to clean up—this was contaminated ground water plume in Texas. Arcadis came in. We provided two things for the client. An incredibly high end, innovative technologies for remediation and also we came in with a business solution. We said we are going to do this in a fixed amount of time for a fixed amount of money, which is difficult when you work in these kind of environments.

As you can see over a ten year period we went from the top left corner to the bottom right and you can see that the plume shrank considerably and that was done not in the 50 year period that the government had set aside time for or the $80 million. We did it in a ten year period for $40 million. So significant savings, value added to the clients and when we talk about what we do and what we offer to clients, we really look at offering value. It is not so much our fees that are the important thing, it is what we can save the client.

So as we have talked about earlier, environment is a big piece of our business. The largest business line we have. For the last three years it has been growing at an acceptable rate of 8% globally. And this is the accessible market size for us. As you can see in the established markets, North America and Europe, large market size there and those are primarily driven from regulatory enforcement. There is pretty strong regulations in place that dictate how people permit new facilities. How they run their existing facilities and then if they do have potential problems with contamination, how they clean those up. So in those markets there is relatively large and established.

In Latin America, you know being an emerging country you are seeing a lot of new facilities. So the type of activities that are going on in Latin America are going to be primarily in the upfront part
on environmental, although we are starting to see more of the remediation. So you see a lot of planning and permitting in Latin America in addition to the emerging remediation market.

In the Middle East and Asia, you know right now there is sort of this latent build up of just need for clean air and clean water. There is not primarily regulatory driven, although the Chinese government in their five year plan has identified environment as a key issue, so potentials for growth in that part of the world primarily in the air and the water area. We don’t see as much on remediation but suspect that in the long term there is going to be a need for remediation.

I will talk about some projects that kind of cut across all the service offerings that Arcadis offers. The City of Orlando is a really interesting project. It is similar to what we did with Reese Air Force Base that I explained earlier. Going in and taking some of our proprietary technologies, patented technologies that we have and applying them to ground water contamination. In this particular case for the City of Orlando, as some of you may know, there is the Superfund regulation in the United States, so if a site is really bad it gets a designation as a Superfund site. That is not something you want downtown in a major metropolitan area.

So Arcadis worked with the client to have the site stay off that designated list, but the agreement was to clean it up in a faster timeframe and make it still—clean up the ground water below the surface, but have the surface area available for use. So you can see there is a ball field, parking lot and so forth there. So we took our world class expertise on technology, we also applied our guaranteed outcomes and did this for a fixed price and the project is still ongoing. But it allowed the city to stay out of that stigma of being a city with a large Superfund site in the middle of it and it allowed them to continue to use the facility.

In Brazil the Jirau hydro plant is one of those projects that is so important. The people in Brazil have a demand and a need for energy that this project is related to. It will power ten million homes. Arcadis has been working on that through the planning and the permitting stage for the client for a number of years. And now we are in the stage of getting their operating license for them. So interesting expertise that we have is, there is probably over 2,000 terrestrial species that we are monitoring during the construction phase to assure that there is minimum impact to the environment during that stage. And it is interesting, during this project we also identified 23 new species. So as we go through the process of not only protecting species that we know about we are finding new species. And we have been able to work with the client and keep them on track with their developing and getting their operating license.
And finally here in Europe, Syngenta one of agchem clients, we have a very strong agchem capability and expertise in the firm. As you may know here in Europe you have EU requirements that products are certified. And some of that certification, especially in the agricultural area relates to what gets in ground water. In this particular case Syngenta wanted not to just model what potentially could get into ground water but actually wanted to go and do sampling. So they retained Arcadis because of our environmental expertise, but also that we have a very spread out, local presence throughout Europe. So this was going to be at 160 sites in 11 countries through that consistent approach that we can offer through our programme management of this extensive programme. We were able to go in, help the client, identify and do the sampling and this one we are in the middle of. The project is ongoing right now.

So how do we get to grow the environmental business within Arcadis? This really kind of hits on the three primary areas of where Arcadis provides services. Sustainable investments, that is what we do—what our clients are doing to build new facilities and we will talk a little bit about how we are going to expand the work there. Sustainable operations that is an ongoing operational facility; they have got environmental health and safety needs for those facilities. What can we do to help them manage their risk and reduce their cost? And then sustainable closures and that goes back to a couple of projects I talked about earlier. How do we leverage and grow that capability? What we have done at Reese Air Force Base, what we have done in Orlando, to other parts of the world.

So sustainable investment, secure the environmental social license to operate, basically our clients are going in, they are building new facilities. The planning and the permitting that goes along with this is really in—you see it mostly in emerging markets because that is where the new operations, new facilities are and where there is permitting requirement. But the interesting thing on this is, this has become kind of the tip of the spear for us if you will in working with clients and bringing to the table all the other service offerings that my colleagues have talked to you about. So we can go in and we will be in the early stages of say a project like the hydroelectric project where we can go in and we will be the first ones on the ground at the base of that operation, understand what needs to be done, the timetable, what is going on. Help them with their permitting. But then it gets into design aspects, so whether it is infrastructure, whether it is buildings, whether it is any of the other things that we can do for our clients, we bring those capabilities to the table.

Sustainable operations, many of our clients—we talk about the asset lifecycle, this is part of that lifecycle where they have got ongoing operations. For one of our bigger bank clients we managed probably over 1,000 facilities for them around the world and take care of all their
environmental issues, things—any internal work related issues that relate to health and safety of the workers. We do that for them in an outsource fashion. We maximise their safety performance which then translates to saving for them from a cost standpoint. And then we talk about the business advisory and that goes to doing anything from due diligence in facility services, just a wide variety of aspects to help them run their business better.

And then the sustainable closures; what we really bring to the table and we are leveraging globally and this is really important, is the fact that we have got intimate market sector knowledge. So when you go in and you are going to clean up a site, if you don't know those contaminates in that particular site and where it is located. So if it is say mining, you better know what you are doing relative to heavy metals, acid drainage and how you can address those issues and have technologies that can take care of them. The clients aren't looking for someone that is going to go in and do a research project, they want somebody that is going to go in and figure out how to clean up those sites. So we bring intimate knowledge, market sector knowledge. We have great relationships with clients, some of these things are high liability, high risk type of sites and they trust us to be the ones to get them out of those sites as quickly as possible.

And the other part of this is the technology transfer. These proprietary technologies that we have, we have made through the global knowledge network, through the value proposition leaders. It is a very integrated group of folks that understand these technologies and we can bring anybody in the world into a country, into a site, that knows specifics about those market sectors, the contaminates and bring the technology that is most appropriate for that site.

So I am going to jump into water and then we will open up for Q&A. On the water side some of you may recognise this. This is the world’s largest pump station that Arcadis designed and did the construction management for in New Orleans post Katrina. We were retained by the Corps of Engineers to— It was almost an emergency response type situation. The devastation was so significant they really threw everything they could at this to address flood control, surge protection. So we went in and designed this system for them and some of my Dutch colleagues say that it took tens of twenty years to provide certain controls. This was done in a four year period, so from nothing to thing pump station and we are happy to say that I believe it was last year, it might have been the year before, when Hurricane Isaac hit. And the reason why I don’t know the exact date was it was sort of a non-event. You always remember when Katrina hit. You don’t remember when Isaac hit because the pump station was turned on, it protected everything and there was no issues. So the good news was there was no news.
Our water business, you know over the last few years—Arcadis historically has had a very good presence, especially here in the Netherlands, on water management. We have had an evolving, growing water management capability in the US. In the last few years though we have acquired Malcolm Pirnie, which is a world class, top shelf water supply, water treatment firm. And then we also acquired down in Brazil ETEP, which makes us the largest design firm in Brazil. So our water business has been growing. The market has been relatively flat for us in those markets and a lot of it is, is public funding and what they are doing and are a big presence in the US and established markets of Europe. So it has been relatively flat but we do see some opportunity for growth and we will talk about that here in a second.

So the accessible market, what you see in North America and Europe is pretty much an OPEX type of scenario where people are looking at their aging infrastructure and saying okay what do we need to do to improve or maintain that infrastructure? There isn’t a lot of resources to go around so you are not seeing a lot of brand facilities for the water treatment and water supply, but you are seeing a growing and a pent up demand for retrofitting facilities. There is a really big play right now on water loss. It is amazing how much water we lose. We treat it, we put it in the pipelines and lose it. In some places it is up to 40% so the whole idea of what we call fix and find—find and fix. You find the problem and you fix it for water control is probably with the aging infrastructure big markets there. Latin America just providing reliable water to a very large population, so a lot of water supply and water treatment.

Moving back up on North America and Europe, the other part of that is with climate change and probably it pertains to everything really, is with climate change you are starting to see a lot of water management demand. So in the US where we see the aging infrastructure on the water supply and water treatment we are seeing even more growing demand for protections like Katrina, in particular I will talk a little bit in a second about Sandy, Hurricane Sandy. And in the Middle East and Asia you know there is that water demand we talked about and how we address that. But there is a growing need for water in that part of the world and you can see from this graph that that is where a lot of the opportunity is.

Talk about a couple of the things that we are doing that I think are very interesting in the water side. The first one is on industrial water. This is a real marriage between our industrial commercial clients that we have got a very good relationship with, a high trust level. And we have done things like environmental remediation, cleanup, restoration work. But we haven’t worked as much in their facilities. What we are starting to see is a need for them, because of the cost of water, the recycling, the sustainability programmes that clients have, of looking at their
industrial water systems and how do you improve those systems so you can increase recycle and limit the use of water in your facility.

Arcadis has been retained by one of the large chem pharmas. We have a very good market sector knowledge of what is chem pharma, what the requirements are of their processes. We were retained—This particular client bought—did an acquisition and with it came 50 new plants. And so we are in the process now of going around the world with them, assessing those facilities. And I think one of the other things that Arcadis has been able to do for them is they have said okay if that is a problem what do we need to do to fix it? We have given them the fix. And then they said, can you go ahead and install and refit the systems so we have actually done the construction on new facilities for them. So we have taken it all away and provided a turnkey approach for those clients. And the construction type stuff and the operations that we do isn’t very dissimilar from what we have done on the remediation side, so it is great blend for us on water treatment. It just happens that the water is coming from the facility, not necessarily from contaminated ground water.

Desalination programme in San Diego for San Diego County. Extremely large, as a matter of fact it is the largest desal plant in the Western Hemisphere. Arcadis is part of the design/build team. We are providing the expertise on—we have in house expertise on desalination. We have partnered with another firm that is world class in desalination design and so we are designing the facility in ten miles of pipeline and it is under construction right now. It should be—We started in May of last year and it should be done by May of this year. Very fast track programme.

And the last project I wanted to talk about and this is sort of the second generation, it seems like when there is catastrophes in the United States, we wait for them to happen and then pull out all the stops to fix them and this is typical with Seaport. It is Manhattan, this is the lower part of Manhattan. As many of you may have seen, after Sandy that whole area was flooded. And so one of the things we have been asked to take a look at and bring our Dutch expertise over for flood control to take a look at it and say can you put together a multiuse facility that protects this part of the coast—this part of Manhattan, the lower eastside. And not only will it be a flood control system, but they can actually put buildings on it. And so everybody knows what the value of square footage is in New York, so the idea of not only providing protection but possibly even paying for itself because of the cost of land and being able to build on it, is a great advantage.

So what are doing on the water side? Focusing on the priority markets; we see that the traditional markets that we are in are going to have moderate growth. But we do see significant upside on emerging markets and in particular in Brazil where we are the largest design firm on
the water side. So we are looking to those markets. We think in Asia some of the big play is going to be in water treatment in Southeast Asia, but there is also the flood control, places like Kuala Lumpur, others, are going to have— You know we saw the typhoon that went through the Philippines recently. More and more as you see these catastrophic events happen, more and more there is going to be a need for water management and Arcadis is particularly well positioned as a—recognised as a global expert on water management.

And then the big urban cities, we talked about that just a second ago, we think the big urban cities— a place like New York we do quite a bit of work for New York City on the water side. There are other cities like Chicago where we work for their buildings department but haven’t done as much on the water side. So we see the leverage-ability of our expertise and our ability to service large municipal areas, metropolitan clients as an opportunity for growth. And then we talked about our industrial clients. We have—I would say the envy of the industry on a client base. And those clients are top shelf clients that we haven’t actually done a lot of industrial water work. We have done a lot on their remediation side. We are recognised by them as an expert, so combining our water treatment, water supply and water treatment capabilities with that client relationship we believe is a great opportunity for us.

So we are also looking at working through that CAPEX and OPEX. There are certain places like in Brazil where we are starting to see new facilities being built, design needs there. We will continue to provide the CAPEX side on the new design, but we also see in the traditional markets, the mature markets that it is really going to be how do we take care of that aging infrastructure. Grow our core in the water supply, water treatment and that goes back to the mature markets.

Water management, this has been for us a real marriage between the US and the Dutch. We have done a lot of work in the US on water management, dams, dikes, levees if you are coastal, but when we bring in the international expertise, it really makes a difference and positions us real well for continued growth. And we see that happening down in Latin America. We also see opportunities in Asia as evidenced by the storm in the Philippines recently for a significant need for flood control, surge protection.

Industrial solutions, we talked about that. Also is from the standpoint of working with our clients and providing them turnkey services. So we can go in and we can identify what are some of your water use issues and here is how you can fix them and not only that, we can implement that fix for you.
I think that takes us to the end, except for Q&A.

Questions and Answers

Varun Mehta
Varun Mehta, BAML. A couple of questions on the environmental side; you mentioned the project with the air force base in Texas and you said this was a multiyear project at a fixed price. The first part of the question is how much of your revenues on this segment come from fixed price contracts? And how do you manage the risk of cost escalation during this multiyear project? And the second question I had was also on the environmental side, which you know this is a high liability, high risk business. How do you mitigate against the risk of environmental litigation?

Zack Smith
First comment or question related to the portion of work we do is probably I would say somewhere around the 10%, the guarantee type work that we do. The Grip® programme that we did a lot of the projects we talked about was a programme that we developed probably ten, 12 years ago and we did it in concert with insurance providers and so we actually had insurance coverage to mitigate the risk. So we went in with known technologies. We felt with manageable risk and we also overlaid it with an insurance programme to cover the risk. Those types of coverage are no longer, the insurance companies aren’t providing that coverage.

So about the only place that we are doing the guaranteed programmes now is with the air force clients. We just recently won Tyndall Air Force Base in the US and the way that they look at these, they call them performance based contracts. Is a similar scenario where we are going to do a certain amount of work for a fixed price in a certain amount of time. But the end products are better defined, so it doesn’t— In the Grip programmes it was you are going to clean it up no matter what. Under the new contract based systems they are all manageable risk that we go in and define the endpoint. And some of the endpoints may not be total clean up.

And, I am sorry, the second question? Did you have another one?
Varun Mehta
The second question was around the environmental litigation risk, with these environmental projects. So you know at the risk of lawsuits if the whole problem is not addressed?

Zack Smith
Yes. Good question. We handle these—we put together a programmatic approach to how we handle these. We have a designated person that leads the team that does project reviews of all the projects. So going back all the way to when we actually set up one of these projects we had a team and we would do a very thorough go/no go. Do we even want to get involved in it for those very reasons? With the jobs that we have done and the ones we are under contract with currently are ones that were with clients that we had good working relationships with that we felt passed the go/no go process. If we thought there was somebody that was just looking to hang the liability on us, we didn’t take the project. And so the first part of it is, okay is the client somebody we want to work with.

The second part of it is do the technologies we have provide any even kind of advantage for enhanced cleanup? Can we do these a lot faster, better? Is there going to be a cost savings because at the end of the day the client has got a certain cost that the things he wants to spend on it. If we want to get the job we have got be a little bit under that cost, but we also have to create our margins for what we want. So we are looking for places where our technology provides an advantage where we can clean it up faster and get—because essentially time is money. So the faster we can clean it up the faster we can get out of there, the better.

And then the last part of that is these teams, the programme management. They oversee and do project reviews on a monthly basis and we bring on our technology experts and if we think a project isn’t headed in the right trajectory towards closure, we will bring in a swat team and hit it hard to make sure that we are controlling the risk and achieving the goals of closure.

Bjorn Krook
Bjorn Krook, ABN. I was a bit puzzled at the beginning. The guys who gave your Reese wanted to pay 80 million for 50 years. You received 40 million for doing it in ten years. So why didn’t you get 120 million for doing it quicker and better? So the background is where are you in value based pricing throughout the group as a whole because you give solutions that save client’s money, you make 9% margin, but if you save them 40 million that is surely going to be a higher margin right?
Zack Smith
There are going to be others that come in, when they look at the performance based contracting, in particular with the air force there is a target pricing that they come in for a particular project and they don’t want you to come in a lot less than it and they don’t want you to come in a lot higher than it; around the ballpark. And that is the way they view their remediation. So when we go at these things we try to come in at a competitive price that, because of the technologies that we maintain we feel like the margin that we get on those is more than fair for the work that we do and it provides the client an advantage for selecting Arcadis and going to a performance based contract versus— In some cases we have a higher burn rate during that ten year period and they may say we want to stretch it out over a longer period of time and they are willing to pay more money for that longer period of time. So we have got to give them advantage of why they want to do it in a shorter period of time.

Participant
You were talking about lawsuits in the US and well some of the investors with these kind of words are getting a bit scary. You gave a good answer I think but can you also indicate where it went wrong? How many lawsuits did you receive in your part in the past few years? And how big were these?

Zack Smith
Yes, I can’t think of any other lawsuits that we would have gotten pulled into for the work we do. I mean many of these sites, the lawsuits involve parties that are suing each other, so company A is suing company B for contaminating their property. Generally Arcadis comes in and in a lot of cases sort of the white knight, especially if we can clean up a site for a fixed price, for a fixed period. It becomes—it puts definition on what the issue is. So the lawsuit and the liability for us, we believe, is very manageable on what we do and haven’t seen anything that would suggest that it is going to be otherwise in the future. Most of the time the lawsuit issues are between the parties that own the land and the ones that potentially added the contamination.

Teun Teeuwisse
Teun Teeuwisse, Kempen. In your environment business, the remediation programmes, how much of that is proprietary technology and how much do you spend on R&D?
Zack Smith
I don’t know the exact amount because we use the technology quite extensively and there is traditional technologies. I guess the big thing for us is we don’t go in and say hey we have got widget A and it is going to apply to every site. If our technology doesn’t necessarily apply to a particular site our proprietary technologies, we use whatever the best technology is that is available. We find in certain cases, like Reese Air Force Base that our technology is particularly applicable and is the differentiator so it allows us to go in and if somebody else is going to do it they may have to use traditional technology that may take longer. So we don’t try to force fit the technology to a situation but really have the situation dictate what the most effective technology would be for remediation.

And the second part?

Teun Teeuwisse
How much do you spend on R&D on developing new technologies?

Zack Smith
Yes. One of the things that we have done is, in particular the US is really the centre of excellence for what we do on remediation. And we have a group of what we call TKI, technical knowledge and innovation. And this group has been established to keep us on the cutting edge of technology and then to also help drive that technology throughout not only the US but other operating companies where there is opportunity. If you ask me for a hard and fast number, I don’t think I could give you one, but I would say the group that we have in the TKI, in the remediation is a good ten to 15 people that are established leaders in remediation. And that is, you know a team that is comprised of both dedicated and people that are actually out working on projects.

Quirijn Mulder
From ING again. I have a question with regard to the government in the US. [audio] it was very important so I am asking in the past it is now about 20% in my view, so—
Zack Smith
What was 20%?

Quirijn Mulder
20% of the revenues in the US, of environment services related to the government, do you expect that to recover in the coming years?

Zack Smith
In about 15, yes. The US government is a hard entity to predict. You know we went from the sequestration where they decided they were going to shut the government down to as we call it kicking the can down the road and I think sometime in January we are supposed to revisit our budget. What we have seen, to be honest with you is the Federal government we have won contracts with them over the past year, even during the period of sequestration when nothing was going on. The work at Tyndall I believe is about a $30 million programme. So they are still letting out work, but it is not at the same pace at which they had let it out in the past. We still are seeing opportunities particularly with the air force where we have got good client relations and where we have had good success on our remediation projects. There is still an opportunity because they are actively trying to divest themselves of their sites. And in a lot of ways the Federal government is like a private client that has properties that they don't necessarily need or use and the idea with a lot of these base cleanups is, if we can clean them up then we can put them back into reuse and sell them to somebody else. And a lot of them are in places where developers want access to those properties. So we see it as an opportunity. We talk to them about creating value, so not only do we do the remediation but do the remediation in such a way that it is a developable property afterwards.

Joost Slooten
Okay, thank you. In the interest of time, if you have more questions for the room—of course we are breaking for lunch shortly, so there will be time for that. If I could now go to the phone lines?

Operator
We have no question from the phone lines. Please continue.
Joost Slooten
Okay, then. As Neil McArthur is walking up to the podium to finalise the presentations of the morning, we will wait for one more minute for callers online to dial in. And your chance is over now. Thank you, Neil.

Presentation

Neil McArthur
Thank you. So only one page in summary; on the left our strategy, on the right our targets, and hopefully we have demonstrated that we believe that our strategy of sustainable growth, performance in collaboration in order to create both exceptional and sustainable outcomes for our clients is going to allow us to deliver on the targets that we have set for ourselves over the next three years. And remember sustainable growth has three elements; it is around expanding the core business that we are in today. It is about investing for more growth in seven priority areas, three of them being end market sectors, four of them being scaling core value propositions. And it is continuing to look for those value enhancing mergers and acquisitions.

And the targets over the three year period, organic growth at greater than 5% compound annual growth rate and remember through the Q&A that is actually two times what we have achieved in the last three to four years in terms of organic growth and that is why we are having to invest from our P&L in order to build those capabilities, in order to drive high levels of organic growth. Inorganically we have said that historically we have achieved around eight to 10% over the last three to four years. Continuing with the target of greater than 5% looking for those value enhancing opportunities for mergers and acquisitions, means that the target that we have set for ourselves over the course of the period to get to greater than 11% operating margin we believe is both realistic and a challenge given that we have the investments that we are making for higher organic growth. Through the three year period we anticipate to be able to convert our cash by having set ourselves the target of pre cash flow greater than net income over the three year period. And as was explained in quite some detail right at the beginning, our historical return on invested capital, we intend to sustain the same level of returns to our shareholders at greater than 13%.

And with that I would like to hand it back to Joost Slooten who is going to do the logistics for the rest of the morning and afternoon. Thank you.
Joost Slooten
Thank you, Neil. And also thank you to our web call participants. For you the online programme ends now and, operator, thank you very much for your assistance.

And then for the people here in the room we invite you to the lunch, which is going to be in the Queen of Holland room. We have a King now but the room is still named Queen of Holland room. And Annabel and Olga will direct you there. If you walk past the reception area and hang a little bit to your left you will find the lunch room there. After that—and we will have a brief time for lunch. After that I would like you to reconvene here at 1:30 in this room. So you can leave your stuff in this room if you are going to the project visits. We will reconvene here. We will do a presentation on the projects in this room and then we will go over to the Central Station of Amsterdam for a tour of the work that we do there. And from the Central Station, just to make sure that we keep on the time schedule that we have set ourselves, we will take a look at the Shell Technology Centre, but by that time you have seen the inside and the outside already on screen, so we are not going to go into the Shell Technology Centre. Just so you know. So we look forward to seeing you back here at 1:30 for the continuation of the programme and you are welcome to join us for lunch.

And, oh, one more thing, if you are leaving now, so if you are not going on the project visits, we would like to see your feedback forms. If you go with us we will get them from you later. Thank you.