Arcadis
Moderator: Harrie Noy
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16:00 CET

Operator: Please stand by, we are about to begin. Good afternoon ladies and gentlemen and welcome to today’s Arcadis Second Quarter 2007 Conference Call. For your information, this conference is being recorded. At this time I would like to turn the call over to your host today, Mr Joost Slooten. Please go ahead, sir.

Joost Slooten: Yes, this is Joost Slooten. I am the Director of Investor Relations for Arcadis and I would like to welcome you to this Arcadis conference call. We are here to discuss the company’s second quarter and first half 2007 results which were disclosed this morning. Presenting today are Harrie Noy, our CEO, and also on the call is Ben van der Klift, the CFO for the company. We are currently still conducting an analyst meeting in the room next door which was also webcast, they are wrapping that up now so they will join me as soon as that meeting is over. So, I will start the presentation with you and then when we get to the question and answer section they should have joined us in the call. Just a few words about procedures before we start – we will begin the call 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. In accordance with the Safe Harbour Provisions of the Private Securities Litigation Reform Act of 1995, we would like to call your attention to the risks related to these statements which are more fully described in the press release and in the company’s filings with the FCC. And now, with these formalities out of the way, let us start the call.

The company in the second quarter of 2007 presents strong results on the back of what already was a good first quarter. In the quarter, the organic growth of the gross revenue went to a level of
19%, which is a record level in the history of the company, and the growth was strong in all the regions and the different service areas in which the company has acted. The net income from operations also rose 19% in the quarter and in the first half it rose 26%. We saw a considerable margin improvement and we have announced just briefly after the quarter was finished, the acquisition of RTKL which is a milestone for Arcadis and at the finishing part of this conference call we will discuss a little bit the strategy behind that acquisition. And the outlook for the company remains good, so in essence you could say that the stronger focus that we have put on growth and on margins is being successful.

In the second quarter, which is the next slide, the income for the company was €14.0 million. The gross revenue rose to €348 million or a 19% increase. EBITA rose 25% and net income from operations increased by 19% and all of that against the backdrop of a currency effect of -3%. If we look at the first half year, the income from operations amounted to €26.8 million, the gross revenue increase was 17%, EBITA 31% higher and net income for operations 26% higher. And in the first half of 2007, the currency effect was -4%, mainly as a result of the decline of the US dollar.

If you look at the next slide, in that slide we will discuss the growth on an organic basis and you can see that the organic growth is accelerating where in 2004 and 2005 we reached a level that was on par with our organic growth goal. We have been able to accelerate organic growth in 2006 to a level of 10% and in the first quarter to a level of 14% and, as discussed earlier in the second quarter of this year, we have reached a record level of 19% organic growth. If you now look at the acquisitions which are the blue bars, you can see that in 2006 we had a considerable effect based on the acquisition of BBL in the third quarter of ’05, so that effect continued in 2006. And then in the first quarter we still see – in the second quarter of this year we still see the effect of the acquisition of, among other things, PinnacleOne in the United States and some smaller companies in the facility segment on the European side. If you hear some noise in the
background I am now being joined by Harrie Noy who is coming out of the analyst meeting to continue this section of the call. I will just let him set up and then continue.

In the meantime I will continue to discuss the next slide, which is talking about how we have benefited at Arcadis from good market conditions in the first half of this year, starting with a discussion about the situation in the US marketplace. Go ahead, Harrie.

Harrie Noy: First of all, my apologies for being a bit late, the analyst meeting took a little bit longer than we initially expected, so I am glad to provide you with some additional information about developments in the half year and the second quarter.

As Joost just explained, the figures of the past half year show that Arcadis is able to benefit from good market conditions. We see at this moment no signs of weakness in the United States which is also reflected in the healthy organic growth that the company has shown in the first half year, which amount to 19%, not only driven by the Environmental market but also by the Infrastructure market, strong in case of our business in Brazil and Chile. The Dutch market remains solid. The Dutch market was down for a couple of years, it started to recover in the second half of 2005. In 2006, the recovery in the Netherland was actually stronger than we initially expected and the solid market circumstances that we have experienced as from last year continued in the first half of this year, also reflected in the organic growth of 11% in the Dutch market. The European market outside the Netherlands was a bit soft last year, also reflected in the organic growth last year in Europe which was limited, given the fact that the European economy is doing quite well. We have seen that our business has picked up in Europe which is reflected in the organic growth of 11% in other European countries outside the Netherlands.

The margin improved in the first half to 9.8% versus 8.6% last year which also shows that we are able to benefit from the positive market circumstances by increasing our margin. We did some smaller acquisitions to strengthen home market positions in the first half which added the gross
revenue of 11 million on an annual basis and another 115 staff. We sold Euroconsult by the end of the first quarter because it didn’t fit anymore in the Arcadis strategy and Euroconsult had on an annual basis 33 million gross revenues with 125 staff and that is also – the sale of Euroconsult is also the main reason that the contribution from acquisition in the second quarter was somewhat lower than in the first quarter.

Then we go to the next slide, the next slide shows development of EBITA in the first half year, quite a positive picture. The headline shows the margin development which came out at 9.8% in 2007 in the first half compared to 8.6% in the first half last year. If we look to the development of EBITA of the last four years in 2004 we increased by 25%, 2005 we increased with 26%. In 2006 with 51% and in 2007 with 31% which is, I think, quite a good performance on a half year basis.

The next slide shows the increase of EBITA; EBITA increases in the first half with 31% which is a considerable increase and the slide shows you where the increase actually comes from. The currency impact was about -5%, the contribution from acquisitions and divestments lost 11% which shows that acquisitions and divestments actually contributed also to margin improvement.
The carbon credit, which is an organic increase, contributes 6% predominantly in the first quarter. The main organic growth was 19% where we compared not so much with the organic growth of gross revenue but with the organic growth of net revenue which was 13%, then these figures show that also organically our margins improved.

Going to the next slide, presenting some financial details. The carbon credit contributed in the first half €2.1 million to EBITA. 1.9 million of the 2.1 million was booked in the first quarter so the contribution in the second quarter was limited to 0.2 million. These carbon credits are generated at landfills; two landfills in Brazil by a joint venture company that we have found in Brazil called Biogas with ArcadisLogos which is our company in Brazil, has a stake of 33.3%. We have sold in 2006 and 2007 one million carbon credits and on the next line, it is shown how much of these carbon credits have been delivered in the meantime. In the fourth quarter ‘06 we delivered
another 80 000, in the first quarter of '07 we delivered 570 000 and in the second quarter was a limited amount of 70 million which means that we have still available for the second half of '07 about 180 000 carbon credits. These carbon credits have been sold under contract with KfW the Kreditanstalt für Wiederaufbau, a German bank in a price range of €20 million, so although the present price for carbon credits in 2007 is below €10 we get €10 at minimum from KfW. The carbon credits price, the present carbon credit price for carbon credits to be sold in 2008 is substantially higher than €10 but that price is rather volatile so we will have to wait and see what will be the price next year, but as mentioned the range will be between €10 and €20. The total amount expected over the period of 2006 to 2012 is 5 million carbon credits that we can sell from those two landfills. And be aware of the fact that Arcadis owns only 50% plus one share of ArcadisLogos so half of the contribution from ArcadisLogos in this respect will go to minority shareholders.

Next special item is related to financing. Financing charges in especially the second quarter are higher for two reasons. First of all, the company is growing substantially not only from acquisitions because that is causing a limited impact but especially organically we have to find additional working capital which causes higher financial expenses and secondly we had a one-off gain in the second quarter of '06 of €500 000 which is non-recurring in '07. Next remark is related to the associated companies. The contribution from associated companies is still slightly negative in the second quarter although a little bit less than in the first quarter, and that is due to some specific participation in energy projects in Brazil. We are aiming to sell the specific energy project; we have good hopes that we can sell it in the second half of this year. The last point to be mentioned relates to minority interests. Due to the good operational performance in Brazil, minority interest is higher already in the first half and that impact will be even stronger in the second half.

The next slide shows net income from operations and earnings per share. Very positive
development over the past four years, plus 12% in 2004, plus 24% in 2005, plus 60% in '06 and plus 26% in '07.

Then we go to the service areas – Infrastructure, Environment and Facilities. The next slide shows the growth and organic growth in each of those service areas and the slide actually shows that organic growth in all three spheres of the service areas has been over the past half year above 10% because the numbers between brackets relate to organic growth and this relates to organic growth in the first half year. So, Infrastructure was grown by 12%, 12% organically; Environmental has grown 18% of which 23% is organically and Facilities was grown by 29% of which 13% is organically. What we see in this picture is that the Infrastructure market in '06 was a deterrent also due to some divestment with that growth; as from 2007 it is picking up again. Environment shows particularly strong growth, also because of the acquisition of BBL in the last quarter of '05 which had a substantial contribution to growth in '06. We also organically, as from 2007, growth is substantial and if you look to the total revenues in the first half year, Environment gets close to the level of revenues that you get in the Infrastructure business. Environment is at a level of about 260 and Infrastructure is close to 300 which means that Environment is approaching the level of revenues that we have for Infrastructure. Facilities shows continued growth over the last four to five years, that is because of the transition that took place in that segment where we divested detailed engineering business and replaced it by management services and these management services show consistently solid growth over the past couple of years.

The next slide relates to Infrastructure. First remark I would like to make concerns the acquisition that was announced shortly after the close of the second quarter of Alkyon. Alkyon is a small company, 45 people with about €4.5 million gross revenues on an annual basis but we feel that Alkyon is of strategic importance for Arcadis as it strengthens our position it the water market. We have great expectations with prospective growth in water management over the coming years also impacted by the whole issue of climate change and with Alkyon we think we can benefit even
stronger from these developments.

Looking at the specific developments in each of the markets, Infrastructure in Brazil and Chile, they show strong growth, especially because of investments in mining and energy projects, but in general you could say that the market circumstances in Brazil and Chile are quite positive. Economy is doing quite well and we benefit from investments from both the public and the private sector. Land development in the United States is down; in the quarter it was down by about 15% but this is more than compensated with work in the water market and to a lesser extent in the transportation market which, at the end, resulted in an organic growth in the US Infrastructure market of close to 10%.

We had finished all developments in Poland. Last year and also in the first quarter of this year we still are confronted with delays in the start-up of projects due to the change of government and parliament, but it seems that as from the second quarter of this year this delay is disappearing. This will bring strong growth in Poland. We have good backlog components, a very strong backlog even, but we could not work on that backlog previously but as from the second quarter we are able to start working on those projects resulting in strong growth. Also, good developments in Belgium and as mentioned also, the Dutch market is doing quite well, which was also reflected in a good level of organic growth and Infrastructure of 9%.

What is worth my mentioning is that the consortium of which Arcadis is part, has been selected as the preferred bidder for one of the big new public/private partnership projects in the Netherlands. That’s important because this is one of the first new big projects entering the market place and given the fact that we are in this selected consortium we not only can benefit from this project but we can also build up experience which will be helpful to acquire other projects in that field.

Next slide is about Environment. We are doing extremely well in Environment. At the bottom of the slide you will see a referral to REACH which is new legislation in Europe that has been
introduced to safeguard people from chemicals that are being used in all kinds of products, so industries have to prove that the materials that they use in their products are safe for people, which causes a lot of consultancy work for Arcadis, especially in Europe. Organic growth in Environment was at a particularly high level, 23%, which came across the board but especially from the United States. We feel that our market share in the Environmental market is growing caused by the combination with BBL which has three positive impacts on Arcadis. First of all, we introduced, as of the beginning of this year, the client [focus bill] in the United States which has had a positive impact on the productivity. Secondly, we make use of a special unit within BBL that is involved in the execution of remediation projects. That business is extremely successful and contributes to growth. And thirdly we see an increase in terms of multinationals to outsource the Environmental work to a limited number of companies that can provide those services which also contributes to the growth of Arcadis. Brazil is doing very well in the Environment market as well, especially as our services are considered for multinationals. Europe, we see growth in almost all countries, also especially in the private sector, and last but not least, our competitive position in the Environment market has been strengthened by the introduction last year of a global health and safety policy in Arcadis and that is a key differentiator to our competitors and because many of our industrial clients now actually require a global health and safety policy that meets certain standards and we have such a policy in place and that is helpful in winning projects.

The last segment concerns Facilities. Positive development in this sector as well. There is a 16% contribution from acquisitions which was caused by the acquisition of PinnacleOne in the fourth quarter last year, plus some small acquisitions in the Netherlands, Belgium and Germany. Organic growth amounts to 13%, mainly coming from growth in management and consulting services in the Netherlands, UK and Germany.

Then I go to the outlook. First the outlook for each of those service areas, the outlook is quite positive. Infrastructure we see good economy, both in Europe and the United States, having a
positive impact on investment. The market is enlarging through public and private partnership initiatives and brings private sector money into the Infrastructure market and by doing so it enlarges the volume in the market which is, I think, good for companies like Arcadis. In the US we expect the land development market to remain soft but that will be compensated by growth in transportation. Environment – there is more attention for sustainability and climate change which is a positive driver for the month in the market. We see a lot of opportunities in brownfields where we can combine remediation with the redevelopment of those contaminated sites and as mentioned, we expect to further increase our market share with multinational clients. Facilities – good investment climates for real estate expected to continue in the near future which is solid basis for continued growth in project management and consultancy services, also through Arcadis AWwPC which is the international network to deliver services for international property investors. RTKL, the company that we have acquired recently, offers ample opportunity for top line synergy as well.

So overall the outlook for 2007 is good, market conditions are favourable. There is ample opportunities for growth, also for synergy. Margin growth is 10%, that was introduced at the end of the third quarter last year, is expected to be reached already this year which shows our confidence in the operational developments in Arcadis. Acquisitions remain high on our priority list and we expect an increase of net income for operations of 20 to 25% for the full year 2007. In assessing those 20 to 25% for the full year you have to take into account two specific items. One relates to tax and the other one relates to minorities. Last year Arcadis experienced in the total year a pretty low tax rate also due to some specific circumstances and the overall tax rate was about 30%. For this year we expect a tax rate somewhere between 32% and 33% which means a considerable increase compared to the overall tax rate last year of 30%. If we would have had the same tax rate as last year the net income for operations would have been 2 million higher, so a substantial impact of the increase of the tax rate and that increase in tax rate will take place in the second half of the year because in the first half it is more or less comparable to last year. The second point is minorities. I have already mentioned that with respect to the first half Brazil is
doing extremely well, we expect that this positive development continues in the second half which means that in the second half minorities will have a big impact as well because we are only 50% plus one share in Brazil so it is fully consolidated and then corrected for minorities. On an annual basis we expect that minorities will have a €3 million bigger impact than last year. So, that is one of the reasons that we have come to this – that is the reason why we have come to an increase of 25%. So overall, I think Arcadis is well on track.

To finalise, I would like to make a few remarks about the merger with RTKL which is the next slide. Then the next slide summarises the Arcadis strategy – the Arcadis strategy is focused on growth in high added value services by building leadership positions in three segments. That is a short summary of our strategy. On the next slide it gives you a short overview of RTKL – a world leader in design and planning. Gross revenues amount to 95 million; net revenues amount to 42 million, these figures relate to 2006. 1050 staff and six offices in the US and four in Europe and in Asia. Services; mainly architectural design, market planning and specialised engineering. The company has a well diversified international portfolio. There are three market segments – commercial, health and workplace. The operating margin of the company meets our target in Facilities and the target in Facilities is 10 to 11% of net revenue. The company has a strong brand and an excellent reputation and the company belongs to the top ten firms in its field.

Why does it fit the Arcadis strategy that is shown on the next slide? We feel that RTKL is the next step in moving up the value chain. We have gone through a transition process in the facility segment over the past three years, reducing low added value detailed design services and replacing them by higher value project and programme management services and in evaluating our position we concluded that if we want to build up a leadership position in the facility segment we needed to extend our services portfolio in Facilities with other high added value services and that is basically what we would do with RTKL. That gives us an opportunity to build a leadership position in Facilities which is also very helpful in getting a higher involvement in property investments.
Arcadis operates in three market segments – the Infrastructure market, the Facilities market and Environment – and all these segments are driven by different drivers. Infrastructure is driven by public sector investments to a large extent, Environment is driven by legislation and the Facilities market is driven by private sector property investments and if you are able to provide high added value services to those private investors you can benefit from good margins and that is the reason why this facility segment is important for Arcadis as a first segment where we want to build up a leadership position. Together with RTKL we can offer a full service package and integrated approach. The next point is master planning – RTKL has a strong position in market planning services which provides us with an early entry into urban regeneration projects which is not only good to get involved in the buildings. Influence in the urban regeneration will also open all kinds of other services from Environmental Infrastructure that has to provide in those times of complicated developments. RTKL provides us with an extended position in China which brings us closer to our goal of being a top ten player in the United States.

RTKL will change the distribution of revenues in Arcadis in terms of service area and in terms of geography. The next slide gives you the impact on service areas and you will see that both Infrastructure and Environment will go down to 38% and 35% respectively, and Facilities will move up from 17% to 27%. The next slide shows the impact on geography. The United States is expected to increase to 46% of revenues and the Netherlands is expected to decrease to 23%, in Europe and the rest of the world more or less to remain stable. These figures, including RTKL, are based on 2007 annualised with a full year impact of RTKL. We see ample opportunities for synergies, we will first focus on top line synergies. This means that we at a certain point in time we will not benefit from certain efficiencies, but it first focuses on top line synergies. We see top line synergies in the Facilities segment between design and planning on the one hand and project and programme management services on the other hand, so people from RTKL can refer to Arcadis for project and programme management services and the reverse. In brownfields we, as Arcadis, are often involved in the remediation at site, while RTKL, there is a lot of market planning
work for the redevelopment of those types of sites and we expect great opportunities for synergy in those circumstances.

The next point is the Arcadis footprint, actually the reason that RTKL joined Arcadis is because of our global footprint and RTKL expects to expand that business more rapidly both in terms of organic growth and through acquisitions using the Arcadis footprint. Next point is about sustainability. Sustainability is an important aspect, also related to investment in new buildings and we think we can benefit from the combination of the Environmental capabilities that Arcadis has with the design and planning capabilities of RTKL. And the last point is China and the Middle East. Obviously, RTKL means strengthening the Arcadis position in China and we are both looking at the Middle East. We get into the Middle East through our clients; RTKL gets to the Middle East through their clients because many of both our clients are interested in the Middle East given the good investment climate and we are now looking at building up a combined position in the Middle East. We have just started to build up and to make synergy plans because we want to capitalise on select opportunities, so not go for each and any opportunity but select those opportunities that has a high chance to deliver positive synergies in the mid term.

So, the last slide shows you Arcadis’ ambition in Facilities. We want to build up a leadership position by delivering differentiating value. We can deliver differentiating value through three cornerstones – global reach, successful delivery and design excellence. Global reach is the global footprint that Arcadis provides and Arcadis’ AWWPC initiatives like project consulting is definitely using our global reach to extend our position with international property investors. The successful delivery has to do with making things happen within time and within budget and our project management capabilities are key in doing so. And the last item, the last cornerstone in creating differentiating value is design excellence provided by RTKL.

So, the last slide gives you the end conclusion, “Imagine the result”. Thank you. We will now open to answer your questions.
Operator: Thank you sir. The question and answer session will be conducted electronically. If you would like to ask a question, please press * or asterisk key followed by the digit 1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. We take questions in the order received and we will take as many as time permits. If you find that your question has been answered you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal for questions. Once again, if you would like to ask a question please press *1 to signal.

Harrie Noy: No questions, operator?

Operator: We have no questions, sir.

Harrie Noy: Wonderful, we have had an extensive analyst conference call which was also webcasted, so I think all questions have been answered already, so the people that participated in this Arcadis conference call we thank them very much for their attention for the company and we are looking forward to meet everybody again after the third quarter. Thank you, and we finish this Arcadis conference call for the second quarter first half year results.

Operator: This will conclude today’s conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.