Corporate Participants

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Neil McArthur  
Arcadis – CEO

Renier Vree  
Arcadis – CFO

Friedrich Schneider  
Arcadis – Member, Executive Board

Presentation

Joost Slooten  
Good morning and good afternoon in the room and also online for the webcast. My name is Joost Slooten. I am the Director of Investor Relations for Arcadis and I’d like to welcome you to this Arcadis conference call and analyst meeting. We are here to discuss the Company’s results for the full year 2012, which we released this morning. With us during the presentation are Neil McArthur, Chief Executive Officer, Renier Vree, Chief Financial Officer, who will discuss the figures with you and answer any questions you may have about them. Also, with us today is Friedrich Schneider, Member of the Executive Board responsible for Europe. The PowerPoint presentations that are being used during today’s call are available through the publications and presentations section of the investor website of Arcadis, 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’ll call your attention to the fact that in today’s session Management may reiterate forward-looking statements, which were made in the press release. We’d like to call your attention to the risks related to these statements, which are fully described in the Company’s risk management reports, which are also available on the website.

With these formalities out of the way, Neil, please begin.
Neil McArthur
Thank you Joost and welcome everybody to this call and presentation. On the agenda today I am going to start and I'm going to take us through an overview of our results and then our strategic progress so far and then going to hand off to Renier Vree, our CFO, who is going to take us through the detailed financial results for the year, and then we will finalise with Friedrich Schneider, Member of the Executive Board, to tell you a little bit more about our plans for Continental Europe.

I'm now on slide number four. We're very happy this year at Arcadis to announce a strong growth in both revenues and profit during 2012. For the first time ever our gross revenues broke through the 2.5 billion barrier, up 26% over last year. In net revenues we were up 30% at 1.9 billion with an organic growth on revenues reaching 4% in 2012. We saw strong growth from acquisitions, from the emerging markets, and from our continuous focus on multinational clients. We're also very happy to report that operational margin again improved, achieving the 10% target that we set for ourselves under our leadership, balance, and growth strategy. Net income from operations broke the €100 million barrier for the first time at 105.1, up 29% versus last year. For the shareholder meeting we're putting forward a dividend proposal of €0.52 per share, an 11% increase over last year, and for 2013 we expect a further increase of revenues and profit.

Moving now to slide five, I will start with telling you a little bit more about the strategic progress that we’re making under leadership, balance, and growth. First of all, the merger with EC Harris that was formalised at the end of 2011 is moving extremely well. January 2013, we've transitioned to the new organisation in both the UK and mainland Europe. The total synergy wins that we've booked so far are €58 million. We have a further strong pipeline of opportunities jointly and we see good growth, and performance has significantly improved; for the year, operational EBITA is now greater than 9%. We’re also very happy with the merger with Langdon & Seah completed in April 2012.

We are aligning Langdon & Seah’s partnership model to the ongoing requirements of being a public company. We have seen great success in the market, over €10 million of synergy wins booked in 2012 and we foresee strong growth with that business. Their exceptionally good margins, greater than our average of 10%, have continued through the year.

We also in 2012 made two smaller acquisitions: ETEP, the leading water engineering consultancy and programme management company together with Arcadis logos in Brazil gives us the premier positioning in the Brazilian marketplace, and when you consider that 35% of the population in
Brazil is still not connected to any form of sanitation, that gives a great opportunity for further growth, as Brazil develops.

BMG, a specialist environmental consulting firm based out of Switzerland, serving the leading pharmaceutical clients, gives us a great opportunity to sell those clients with a broader set of capabilities from Arcadis on a truly global basis now.

We have also spent time defining a new operating model for Europe and a path to improved performance, and we’re going to share that with you later today.

We have also continued to rebalance our client portfolio and I will share a few slides later on with that as well. M&A, always part of our leadership, balance, and growth strategy, continues with emerging markets and selected other geographies as being the focus.

2012 was the second year of our leadership, balance, and growth strategy – I’m now on page six – but we also then this year said we were going to focus on three additional areas: moving higher in the value chain, and we’ve done that through these specific acquisitions that we've done with BMG and ETEP, and Langdon & Seah; and then we're also very proud to say that we've now been able to share with our clients Built Asset Consultancy; we've sold work in every region that we're operating across the globe, in North America, Latin America, in Europe, Middle East and in Asia, and that's allowing us to continue this positioning higher in the value chain.

The other focus area was to improve organic growth and, as you've seen from the results, we have managed to improve organic growth this year to 4%. That's the highest it's been in the last three years. We are also continuing to look for the synergies between those companies, Langdon & Seah and EC Harris, where, as we said on the previous slide, there’s around 70 million in bookings in total in 2012 and a strong pipeline of synergy opportunities moving forward.

We continue to enhance our client focus and improve our account management, focusing on global multinational clients and our large national clients. All of these actions are helping to improve our organic growth.

Finally, we set out this year to say we want to be the best and recognised as being the best in everything that we do, and we've made some progress this year. We have strengthened the corporate team; we have a new Director of the global business line, Buildings, and a new Director of the global business line, Environmental. We have a new Director of the Multinational Client Programme; we've added a Director of Strategy at corporate, we have a new Director of M&A at corporate and we have a CIO at corporate. All of that is strengthening the Senior Team for
further growth in the coming years. We have also demonstrated better working capital tool management with more discipline and you will hear more about that when we go through the details. We have also laid out a clear path for margin improvement in Europe and we continue to enhance our performance culture throughout the global organisation.

Turning now to page seven, very quickly, our rebalancing to the private sector continues. The private sector clients are now 55% of our gross revenue, up from 46% only just two years ago.

Turning now to page eight, strong organic growth and mergers have allowed us to almost double our revenue in emerging markets. You can see now in 2012, but in terms of gross revenue, emerging markets make up for 21% of our revenue and that today makes the emerging markets in terms of headcount by far and away our largest region in the world with 36% of our staff now in the emerging markets, around 30% in the US, and the remainder across the Netherlands and the rest of Europe.

With that, I would like to turn it over to Renier Vree, our Chief Financial Officer, who is going to take you through the results for the fourth quarter and the whole year – Renier.

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Renier Vree
Thank you Neil and good afternoon, good morning, and I'd like to just start with just sharing with you the results of the fourth quarter. It’s at page 11 and here you see the performance across the main elements of the P&L; revenues, EBITA and net income. You see that all growth numbers are at double digits. We’re 16% on gross revenue to mention one; operational EBITA very strongly up, and also earnings per share an increase of 13%.

Moving onto the next page showing the graph where we display the organic growth of the individual business lines compared to the same quarter a year ago. What you see here is the 4% growth on the black line that Neil already indicated, but also some core to the various business lines. Infrastructure continues to show the highest growth, albeit at a bit lower level than the prior quarters. We continue to see growth in South America, but not at the extremely high levels that we have seen for a number of quarters and also Europe in particular is in decline.

We indicated last quarter that the backlog in the water business has improved and we see that now also coming back in increased revenues in the water business, and therefore organic growth, and we were also helped by Hurricane Sandy, because in the aftermath of that we did quite some work around debris management on the east cost of United States. The environment business
line turned into the positive territory also in the fourth quarter, while buildings declined less than the prior quarter, also there indicating an improvement.

When we look at the main developments on the next slide, number 13, we've already mentioned a few times, emerging markets explains a large part of the success story in 2012, because that's where we saw a lot of growth both organically and with the acquisitions of Langdon & Seah, ETEP, and EC Harris the year before. We see in South America that the market is still strong and I mentioned earlier a bit softer maybe than before, but still strong, but the good news is that public infrastructure is on the rise and we expect there to benefit for also the years to come. Mature markets, no surprise, mentioning Europe here and sometimes part of the US, clearly softer economic conditions. Nevertheless, we saw revenues up in all four business lines that we have with organic growth every quarter in the past year, and in the second half we saw the organic net revenue improving in the other three business lines. I think that's also testimony that the performance focus that we have had in the last quarters and the increased focus from that that Neil mentioned is starting to pay off.

Moving to the full year figures on page 14, also here are strong numbers with revenues up by 26% and, indeed, breaking the €2.5 billion barrier and net income from operations at 105, up 29%.

When you look at the next slide, you see that acquisitions were when we talk about the revenues the main growth driver, but the blue bar represents the impact of acquisitions and you can see here it was 18% in 2012 that gross revenues were helped by acquired revenues, while organic growth was at the 3% level when we talk about gross revenues, higher than 2011, 2010, and 2009, although the business is maybe slower 2011, but it also shows that despite sometimes difficult markets we are able to generate organic growth.

Page 16 shows the positive trend in EBITA where year after year we were able to increase both the recurring EBITA, and just for the record recurring EBITA is our EBITA without taking into account the cost of acquisitions, as well as the gains and losses on divestments, and operational EBITA is the recurring EBITA adjusted for both the reorganisation and integration charges, as well as the reserves from the energy businesses in Brazil until 2011.

The next slide shows the development of recurring EBITA from 2011 to 2012. You see there that we have a 6% improvement in currency, mostly because of the stronger US Dollar. Acquisitions contributed also here significantly, 27% increase in EBITA. In 2011, there was a gain related to the energy business in Brazil. It was a one-off in 2011. That explains the minus 11%. The
restructuring and integration charges increased in 2012, mostly because of the efforts we have made to integrate the UK business with the EC Harris activities in the UK, and other organic development of 1% positive is left.

A bit simpler overview, but just focusing on operational EBITA, is on the next slide, showing there again the currency impact and the acquisition impact, and also there the 1% organic development of the operational EBITA, and here the emerging markets explain the positive trend in those reserves where the reserves in Europe, actually could read in our press release, explains that there was some offset to that positive development.

Moving onto the next slide, you see that operational margin improved; in fact, it improved significantly in the fourth quarter of 2012 at 12.1% and, therefore, the total for the year was exactly 10%, in line with our target to be at 10% or more. It doesn't mention that in that 12.1% was a gain in EC Harris, a €7 million gain that's related to the fact that the partnership structure was kept in place in EC Harris, so within the corporate structure of Arcadis overall, and the financial treatment of some of the costs we make for amortisation of goodwill, contribution to pension funds, acquisition costs are flowing through that partnership and therefore there is a tax relief for that. It flows into EBITA and it’s pretty complicated accounting and we want to be absolutely sure that we could account for this in the correct way and that became clear only in its full detail by year-end. There was a 7 million gain because of that, which was slightly higher than we had anticipated earlier, but if you look at it in a clean way then it should say 5 million of that 7 basically relates to the first three quarters of 2012, and if you make that adjustment then the margin in Q4 would have been 11.1% and we expect that of that gain through that partnership of EC Harris, there is €4 million recurring also in the 2013 and beyond.

On page 20 we showed the net income from operations and the trend there over the last five years, and the nice development of the earnings per share ending at €1.49 in 2012.

Slide 21, operational cash flow has doubled compared to 2011. Cash from operations was 158 million. Working capital reduced despite the fact that the Company has grown. As a percentage, working capital was 14.9%, which is 0.2% lower than the end of 2011. It's higher than the 14% we were targeting for 2012. Basically, there are two elements of that and one end has the receivable part, it’s clearly showing significant reduction; in fact, almost two percentage points reduction can be seen in the receivables as opposed to the billed and un-billed part of receivables. Also, the number of days of receivables outstanding went down from 79 to 73 days by the end of 2012. On the other hand, the payables also went down because the level of
subcontracting was significantly less in the last part of 2012 than the year before and that offset to that improvement in the receivables.

The balance sheet on page 22 remains healthy. The net debt increased slightly compared to 2011 despite the investments in acquisitions. By year-end our net debt over EBITA ratio was 1.3, so 0.5 better than we were at the end of Q3, and if you take the average net debt over EBITA, and that's how we calculate it and have agreed with the banks to measure our performance against the covenants, it was at a level of 1.5, taking the end of June and end of December numbers, and that's compared to 1.4 in 2011.

The funding of the Company hasn't changed that significantly in the last quarters. You see there that we have a quite nice spread over time when that has to be repaid. There is some debt coming up for renewal in 2013 and we are in the middle looking for the best way to do that.

On slide 23, the return on invested capital, we achieved there a 13.5% return, almost the same level as the year before, despite the fact that we made significant investments and acquisitions, which usually has a bit lower return at the beginning and over time the return increases. The dividend proposal that we have put forward, as mentioned, is €0.52, so 11% more than in 2011 per share and another improvement we make in there is that we offer shareholders this time also the opportunity to make a choice between cash and stock dividend, and with this proposal we continue our track record of every year maintaining or increasing our dividend ever since we got listed in Amsterdam in 1995.

Then I start giving some more details on the four business lines. On page 25, you see there the growth of the business lines in the last two years, a 13% average growth over those two years, but the biggest growth can be seen in buildings at 32% on average, mostly because of the acquisitions that we have done, and infrastructure is 13% growth and there the big driver has been South America. The environment business, an increase of 8%, and water a slight decline of 1% over those two years, because of the market circumstances we have seen in particularly the US.

We move onto the next page. We show the level of revenues of the four business lines over the last five years. The growth, in-between brackets you see there the organic growth, and you can see that infrastructure of 9% is the number for the full year 2012. Environment at 4%, buildings declining at 5% and that's mostly caused by the developments we see in the Netherlands and to some extent in Belgium, and water in the end growing 1% for the full year.
We look on the next slide, 27, at the margin per business line and then you see infrastructure at the level of 8.1%; it was 9.2 the year before and the main reason for that decline has to do with Poland where you remember that we did a write-off of 5 million in the second quarter of 2012. The water business basically at a stable EBITA level. Environment was able to further increase its margin to 12.6 and buildings at 9.9%, showing a very nice growth from the 7% the year before, helped by the improvement in performance of EC Harris, but also Langdon & Seah adds to this and other measures we took to adjust the capacity in weaker economies to the demand.

The next page we share with you nice pictures of projects that we are doing. These are projects in the infrastructure segment. You see the airport in Brazil that we made announcements about earlier with the cooperation between EC Harris and Arcadis Brazil, the work was won to do the project management on doubling the capacity of that airport. Two examples of work on the Metro Lines, one at Amsterdam and one in Chile, and you see there in the example of work we do for Vale, the big mining company, for which we do programme management work in Brazil, but also in Oman, Malaysia, and Mozambique.

On page 29, more details on the infrastructure business. There is some acquisitive growth also in infrastructure, which is the EC Harris part of that growth. No surprise I think to anybody that in Europe the market for infrastructure is clearly under pressure, because of the budget cuts that we see in many countries. Luckily we are also having a strong position in South America where we are seeing the investments that were made there in what we call private infrastructure, so particularly the mining companies and energy are growing, but also the public sector investments like the airport I just showed are helping to grow the top line here.

The large projects continue in Europe, it's often sizable projects we are involved in, and we also show that in 2012 that France was able to further grow the infrastructure business. In Poland after what happened earlier in 2012 we have downsized the organisation significantly, because the road business basically collapsed, so there we have reduced capacity significantly. We are just finishing the remaining projects and we'll only use a very small department for those activities; a focus much more on the work and opportunities there in the water, environment, and buildings also with the EC Harris activities in Poland that were merged earlier last year, and the margin in Europe went down 1%. I already mentioned the Poland write-off and the compensating part is also improvement that we saw in EC Harris in the year and in South America.

A few nice pictures also for water. You see there water projects we do in Oman to get clean drinking water to the people there. In 2012 we were successful in expanding on industrial water. It basically means that for industrial clients we helped them to reduce the water they use or the
water will be cleaned and treated before it goes back into the system, and one example here is the Ford Motor Company. In Newtown Creek, one of our largest clients already for decades was hit by Hurricane Sandy. We were involved there in the cleanup and now there is also new work coming to protect the facility more towards future hurricanes, and then the project on wastewater treatment facility; this is the first one that is completely CO2 neutral.

In water we have seen the US market stabilising in the year, although originally the Federal market was weak; industrial started to pick up. The organic growth has been good in South America and also in the Middle East like for the CO2 for Oman, and in the UK there are the investments that are being made under the A&P 5 programme. We did win some market share in the Netherlands, because we got more involved in water treatment than before and want some nice projects for that, and in the fourth quarter were helped by Sandy to work on this debris management; as shared before with you, the ETEP acquisition in Brazil gave us a very strong position to improve our position there and bodes well for the future.

On the next page, the environmental business, we are involved in the large cleanup of an air force, the former Reese location, and another nice win is work we do for 150 cities that are working on becoming involved in climate change and the European Union is coordinating that. An example, in Florida and also in Germany there are lessons we learnt in the US with treatment of contaminated sites are also applied now in Germany with a number of projects and growth realised from that experience.

On the next slide, some more details of that. In 2012 you may remember that in the first part of the year, the growth in the environmental business was quite good, particularly because of the private sector in the US, later on then the uncertainty in the markets increased, that tapered off, and then Government work remains in decline. On the other hand, in Chile and to an extent also in Brazil we saw that growth in mining and energy projects. Multinational clients did well in Europe, growing our activities we could do for them and that's also compensated for lower demand from Governments. We acquired a relatively small company in Switzerland, BMG, with a very high profile and that gives us access to Pharma and chemical clients, not just in Switzerland, but also across the world, so we think that's the next vehicle and way to grow our multinational client base.

On the next slide you see some pictures from the business line, buildings, being involved in the largest hospital in Saudi Arabia; a 4,000 bed hospital that RTKL has designed. In the Philippines they were able to have the first building with a Gold Certificate from the Leeds Institute, indicating
the highest level of energy protection. In China we have opened both interior architecture through RTKL and also through mixed use and retail projects like you see here in Tianjin.

Last week we announced – and you see that picture on the next slide – a very nice project. We get involved in the Kingdom Tower, a 1,000-metre high sky rise, which will keep us busy for quite a while to realise this building, because we will be involved in the project management and from there we also expect further opportunities to grow our activities in Saudi Arabia.

The buildings business was the one seeing the most spectacular growth, just like the Tower, in 2012 – 82% growth. EC Harris and Langdon & Seah are contributing most to that because of the acquisitions that we did through them. Organically buildings was down and the Netherlands is the place where most of this decline happened, somewhat compensated with the growth that RTKL was able to realise in healthcare projects in the Middle East and also the commercial real estate market in the US has started to recover. EC Harris had some good wins in the year, amongst others in Qatar, where we get involved in, and impact of the acquisitions where we measure the projects that either Arcadis or the acquired companies individually would never have achieved. In total, it was in level of bookings of €70 million.

When we look at regional developments on slide 38, you see here the five-year track record of the various regions. The US remaining the largest region, 1% organic growth in 2012. You see there that Other Europe and the Netherlands both had an organic decline, 4% in Europe and 6% in the Netherlands, and that was all compensated by the very strong growth in emerging markets, 35% organically and even 91% if you include the impact of acquisitions and currency.

The margins are on the next page where you see that the US was able to maintain, in fact slightly improve its margin to 12.2% in 2012. The emerging markets had 11.5%, also continuing to be above the average for Arcadis, and the Netherlands, despite difficult markets, a somewhat decline of margin, but operationally an 8.6% margin we consider still a good achievement, and the rest of Europe at 5.1%, which is an improvement compared to 2011, but significantly less than what we are aiming for, as Friedrich will explain later what we’re going to do to improve that margin.

Then I hand it back over to Neil.
Neil McArthur

Thank you Renier. Turning now to page 41, a very focused set of leadership priorities for Arcadis for 2013. We are going to implement the Pan-European operating model, which is the next section of the discussion today. We are going to continue our focus to stimulate organic growth and capture even more revenue synergies from the recent acquisitions that we’ve made. We’re going to continue to work on evolving our performance culture around margin improvement, working capital, and improving our project management. Acquisitions are still on the agenda to strengthen our positions both in emerging and in selected mature markets, and this year, as is normal practice in our three-year cycle, we’ll spend quite a bit of time and effort looking at our strategic review and the target setting for the 2014-2016 period.

Turning now to page 42, the outlook per business line. In infrastructure, we expect growth to continue, but at a lower pace. We see opportunities with large social infrastructure projects like the one we’re involved in with Asghar in Qatar in the Middle East, but we expect slower growth in infrastructure in South America. As everybody knows, the European and US markets are stagnant due to Government austerity.

In water we expect recovery to gain pace. We expect to be able to capitalise on the opportunities that we now have, the growing opportunities we have, through our acquisitions and capabilities in South America, and organic in the Middle East through the position that we’ve built there. Our shift in focus to industrial water is creating opportunities for us with large multinational clients around the world, and flood protection offers opportunities both in Asia, where there are a number of countries that have had flooding issues, and also the recent work around the east coast of the US.

In environment we see momentum returning. We expect to continue our ability to gain market share through the superior technology that we have and capabilities in Arcadis, and we see the opportunity for the private sector demand in mature markets to continue to give us growth.

In buildings, stronger organic growth. We have leading positions now in high growth regions in the Middle East and in Asia in buildings, and we’re going to capitalise that and grow significantly through organic growth in those regions, and you’ve seen that with the involvement that we now have in some of these very large scale programmes. Overall, our backlog has evolved in line with our revenue growth. It’s steady at 11 months of revenue and for 2013 we expect to see a further increase of revenues and profit by unforeseen circumstances.
With that, I would like to now turn it over to Friedrich Schneider, a Member of the Executive Board responsible for Europe, who is going to tell you some more about our plans for Europe.

Friedrich Schneider
Thank you Neil, good morning and good afternoon to everyone, I would like to share some details about our developments in Continental Europe with you.

Well, looking at our activities in Continental Europe, this is about 25% of Arcadis’ net revenues and to give you a little bit of a flavour, in the Netherlands, which is the biggest unit, we are running about 2,200 people and there are three operating companies that are about the same size, between 700-800 people, which is Germany, Belgium and France. At the next level is Eastern Europe where in Poland and in Czech republic we are running about 250-300 people and then there are smaller countries like Switzerland with about 60 people, Italy without about 70-80 people, and a very small outfit in Spain with about 30. This is the activity that we are talking about and with around 5,200 people overall, this is of course a great service of experience and of expertise that is very important for Arcadis. It is in particular very important for Arcadis, because we want to take that expertise and link it to the high growth markets in Brazil, in the Middle East, and in Asia. We see huge potential there for us in order to link work out of Europe and out of these regions.

Well, the market conditions in Europe of course are very challenging and the Euro crisis is re-emerging every now and then, and the austerity programmes are continuous, and we expect that not to change very shortly. At the same time, our international clients, large national and local clients, are demanding global best practices from us in order to deliver our services, so all of that and combined with the underperformance in terms of margin, all of that required us to change our operating model and to develop one for Continental Europe.

Well, so we have developed one goal for Europe and we want to become the best consulting/engineering company in Europe, but we will better and more cost effectively serve our clients across Europe, we will drive innovation and growth through our services, and, as we need the best people to do that, we will provide enhanced career and growth opportunities for our staff. We have defined three strategic levers that we are addressing. On the one hand, we have identified areas of excellence that are going to drive top line growth and I would like to give you a little bit of a flavour here. If we were looking, for example, at our environmental services, the acquisition of BMG in Switzerland has opened the Swiss market for us, and in Basel at the moment we are, for example, retrofitting a waste dump where we are doing the project
management and the EIAs for that; a very significant project for us, which we are doing for Roche. Adjacent to that is a part of the processing plant that is getting brought down; again, we are doing the EIAs and the project management for that. That's a typical, typical activity that we can drive throughout Europe much more strongly. Another good example is our water management activity at the Schiphol Airport where we are managing the sewerage system. There is no reason why we should not do that in Brussels or in Frankfurt or in Paris. These are all examples where we believe that by pulling together our capabilities and our capacity, we'll drive top line growth and also bottom line.

Secondly, we are going to implement best in class core processes; core processes that are going to address pricing and thereby order intake, and also our project management processes where we still have too many projects that are either at breakeven or below levels. Finally, we are going to establish Pan-European shared services centres in order to provide more cost effective support. We are creating one model for Europe, one operating model, that is going to leverage our capabilities and best practices for all clients; for multinational clients, for large European clients, and for local clients. We have established one European Management Team and one governance structure in order to drive that performance. At the same time, as about 80% of our business is local for local, so we’re providing local services with local teams for local clients, we are retaining our country steering level in order to remain close to the client and to be closely in operating control. The Pan-European shared services centres, which are going to be virtual, for HR, Finance, IT, and real estate management, are going to support this process in a very cost effective way.

Right, what does that mean for the bottom line? First of all, we have defined initiatives to deliver annual cost savings of €25 million. The implementation costs in 2013 and ’14 are going to be around 20 million, so there is a significant investment that goes into this process and that will lead us to a 10% operational EBITA, which we achieve by the fourth quarter of 2014, which compares with 5% this year. Implementation has started. We are working on this project already since August 2012, so we are now more than half a year into the process. We have studied this very carefully and are implementing as we speak.

Thank you very much.

Neil McArthur
Yes and we will now open up the floor for questions, so who can I hand the first one there?
Questions and Answers

Robert
I have one question on your plans for Continental Europe, trying to reconcile some numbers, in the presentation you indicated 25% of revenues involved for continental Europe, but in the press release I also see continental Europe 25% revenue and I believe that includes EC Harris. I am a bit confused there.

Renier Vree
That is a good question, because 2012 we report on the structure that we have to date which is that we have Netherlands and the rest of Europe as separate reporting entities, from 2013 we will report continental Europe as one organisation and also start reporting about that and the presentation and the numbers we used is already based on that 2013 restated situation for 2012. Basically if you think about our reports in this year 2013, it will be UK/EC Harris; it will be Europe and then of course still North America and emerging markets. In other words the change compared to 2012 is that the Netherlands combined with Europe and the EC Harris activities that were a part of EC Harris Group have been moved into the activities mainland Europe as of 1st January this year.

Robert
... The Netherlands is about as big as the UK?

Renier Vree
That is just how the numbers turn out to be, because the UK has grown a lot because of EC Harris.

Robert
There is a follow up, I was also under the assumption that you would not look at the Netherlands because in the Netherlands the margin is already at a high level, but now you have decided to include the Netherlands in your effort to increase the margin.
Renier Vree

This has nothing to do with the margin itself, but we have to provide an effective organisational model that we can run across continental Europe. The Netherlands is a great source of expertise especially in infrastructure but also in buildings and the environment, and we need that scale in order to build an effective model also on the back of projects for example and on the indirect cost savings side, for example for real estate. Having one consistent operating model is very important for us, rather than creating an additional interface which we would have if we would have excluded the Netherlands.

Question

A couple of questions about the restructuring in Europe. Can you indicate how the split will be of the restructuring costs of 2013/14 and to what extent we can already expect a significant part of these cost savings in 2013. Also if you were to provide comparable figures for our model structure for the coming year, so on a comparison base. Then finally can you give some comments for the backlog of activity for the end of the year.

Renier Vree

Let me get past your questions, first of all we will reconcile so when we report this year the 2013 results we will make sure that the comparisons will be made in a clean way so that we have good transparency for you as I think you are used to getting from ARCADIS.

Question

I mean beforehand, so the 2012 results based on the new structure.

Renier Vree

2012 for Europe you have gotten, that is what is previous presented, 452 million revenues, and the 23.2 million operational EBITDA. Those are the correct numbers for Europe in the new structure.

Looking at the restructuring costs, we expect that more than half of those costs will fall into 2013, and it will depend a bit on the pace that we can have, how much it will be exactly, but the current guidance is more than half will be this year and the remaining part in 2014. Also on savings we
expect that we will start to accrue already in 2013, but it is hard to make an exact prediction but in order to achieve that 10% level by the end of 2014 we would like to be halfway by the end of this year.

The question on backlog, I had the numbers there. Full year backlog figures then infrastructure was down 8% full year, water was up by 5%, environment was down 11% and building was up 22%, meaning that the total was an increase of 1% of the organic development of the backlog in 2012.

Question
What would you say on the quality of the order book, now for this year going forward taking out maybe some benefits you have seen from Langdon & Seah, and the improvements in EC Harris? What is the overall feel for the other parts of the order book? That is my first question. The second question is your working capital targets were a bit more ambitious than the outcome at the year-end. Does this 200 basis point improvement versus 2011 still stand for yearend 2013? Besides the restructuring for costs for the EU improvements in 2013, what have you included besides that in your guidance, which should support your guidance for the full year?

Neil McArthur
Let me address the order book question. As you have seen the migration towards private sector clients is one that we have been continuing, 46% up to 53%, and at the same time this year we have been able to reduce the receivable days by six dates between the end of 2011 and the end of 2012. I think that all adds up to the quality of the clients that we have. We have a strong no-go process for work that we want to bid on and we are very confident that we have a robust process around that. We’re happy with the quality of our order book. Working capital to be at 14% by year-end so there are factors that we missed in that number, I admit that. Looking at the quality of working capital I think it is much better, I think lower receivables in days, and having some offset comparables indicates that we have managed our revenue and collecting of it in a very good way during 2012. We will continue with that process also this year obviously. What does this mean in terms of year-end, I think the target pool in the end have a 13% working capital is something we continue to aim for. It hasn’t become any easier in the market. For instance we have see movements that usually work at the yearend pretty fast in paying but more reluctant. We have seen mining companies often did prepayments in the past stopped doing that in the course of 2012, so in that sense they had their further working capital increased. Nevertheless we will continue to aim for 13%, but I don’t promise that for 2013. I think in 2013 we want to see
another improvement compared to the 14.9 at the year end and the exact number I don't know exactly but I would say that 14% is a pretty good number to aim for and still show that in our books, even if it is a bit later than at least it is still reported out and with a good quality of the working capital.

__Neil McArthur__

Well to address your last question I think we have been pretty conservative. We have assumed zero growth on the top line, even though we are addressing the pockets of excellence, so there is some upside. We have only looked at hard cost out, really cash out; we have not taken into account any process improvements that should benefit our bottom line, so overall I think we have taken a reasonable and conservative approach in order to get to the bottom line improvement.

__Renier Vree__

The question on guidance related to that is indeed that what I mentioned earlier, more than half of restructuring costs will be spent in 2013, but also the savings will start to accrue during the year and after that the guidance includes these assumptions.

__Question__

But if you look year-over-year, 18 plus 5 from Poland if I address that correctly, so that is 23 total benefit if there is 10, 12, 13 from the EU restructuring there is another 10 left which you wouldn’t see back again, although there will be another one of all the restructurings across your business which you expect to see.

__Renier Vree__

When we look at restructuring then I would say Europe is the place where we should see most of that in 2013. 2012 was UK EC Harris merger and some smaller restructuring which always happened, they always have to adjust we do that. The significant amounts will be for Europe.

__Question__

Last question and correct me if I am wrong but the margin in the US, H2 versus H1 was quite weak, 11.4 in the second half versus 13% in the first half on the operation EBIT level. Is there any specific reason for that or is it a surprising level on your new business is deteriorating.
Renier Vree
I think what you have seen in the US is in the first half year a very strong environmental business which has by far the highest margins that we have in the company and in the second half that environmental business started to slow down and that has an impact on the average margin.

Question
Should we see some of that in 2013 as well?

Renier Vree
It depends on what the environmental business will do. I think what you saw in the fourth quarter was the environmental business overall globally picking up again, +1%. That is also helped by the US. I think the US is also an organisation which is very good in managing the margin, so in that sense it makes up about 70% of the environmental, so in that sense what happens in the US impacts this business most. We are in that sense confident that margins will also be strong in 2013 for the environmental business and the US.

Question
Hi Teun Teeuwisse ABN Amro, two questions. The water weakness in Q4, could you explain a bit what is going on there and how much we should read into that for next year? On EC Harris the synergies, what is the potential there. You showed 70 million there. Where can you guys take this and just a basic question, how do you actually track this, because after a while the business becomes integrated and I just wonder how reliable that number gets over time.

Renier Vree
We have three businesses, water distribution, water treatment, and water management. We saw water distribution also because of industrial water and Sandy we took water treatment and the uptake in Q4, water management is the hardest one, because that is fully public funding and there are projects like we would love to is helping New York to become safe and there are more of these types of projects around the world that will depend on funding. That is nowhere easy as we speak.
Question
Despite storms and everything that is still very hard.

Renier Vree
It takes a lot of time, so for us in the end it will be the people that decide through officials and the
government whether they are willing to spend money on investments or spend money on clean
up.

Neil McArthur
On the second question around the synergies with EC Harris. We log all of the opportunities that
we’re looking at together. There are clearly three lines there, there are prospects, then we risk
the prospects, and then there is the sold work, so the numbers that we are sharing with you are
the result which is the actual sold work. When you look at the shape of the pipeline the more time
we have had EC Harris as a successful partner of ARCADIS, we see an expansion of that funnel
of opportunities that we can go after jointly. As time goes on you see more and more of the
international projects where EC Harris has not got a presence where we’re winning work, so for
example the one that Renier showed you today about Sao Paolo airport expansion, that is
completely new in that there was no EC Harris capability there before. We have work that we are
now selling with our multinational clients in the US on build asset consultancy. Again where we
had no EC Harris presence before and we will continue to invest in organic growth around build
asset consultancy.

Question
So a follow on probably, because I think you have the same plans for Europe, just cross border
selling of references, so there is something in the Netherlands and you have tried to sell that in
Switzerland, so how far you think you can take this top line synergies going forward, because you
booked in zero I think. What can you do there?

Friedrich Schneider
Well it is not only the references that we want to cross sell. It is in particular also to bring our
capabilities across the borders in order to better service our clients and thereby generate higher
wallet share of the business over time. With the higher quality of people that we can bring across
we will also drive the bottom line in terms of project results. It is not only a purer top line effect; it is also a bottom line effect that we want to combine by standardising processes across Europe and by running everything much more tightly. We are going to implement European business lines for infrastructure, water, for buildings and for environment, which we are going to run more effectively than if you were running such a division on a local or on a national level. All of this is going to grow top line and bottom line and that is the target for Europe over the next years.

To quantify that I think is very, very difficult because at the same time of course what we see is that markets are still in a decline, so I think reasonably we want to at least stay where we are and anticipating a little bit of a pickup, how much that is going to be, I think we will have to determine with hindsight.

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**Neil McArthur**

These areas of excellence that Friedrich talked about and one of them being build asset consultancy across Europe, we see opportunities for growth, but we are being cautious in the outlook for what we are committing for Europe until we get this pan European operating model fully functional.

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**Question**

Then maybe a question slightly different, to go from 5-10% margin, there is a big part coming from cost savings and there is a part from these operational improvements. Can you split between that perhaps?

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**Friedrich Schneider**

What we have estimated is that the improvement comes from cost out. It is not a process improvement, as I mentioned before, it is also not the top line growth that is going to deliver the bottom line but it is really cost out, and just to give you a little bit of a flavour here, real estate is a big cost item for us, after staff that is the second largest cost item for us and 50% of our leases are falling due over the next two years. That is a huge opportunity for us to reduce space as we have also reduced over the last years. I also view this as a huge opportunity to implement a completely new way of working. We want to work much more flexibly that will again reduce our space requirement and therefore drive cost down. We have identified all these opportunities across Europe in order to really drive cash cost out.
Question
Three questions from my side. In the strategic review on Europe you looked at integrations and cost savings. Did you consider exiting some regions, did some elimination of activities come out of that. My second question was on EC Harris and with this partnership. As you remain in the partnership what does this mean in terms of collaboration between EC Harris and the other entities within ARCADIS, I think especially Langdon & Seah in Asia. Does this complicate matters and maybe the other entities as part of the ARCADIS brand? The third question is more general on organic growth by regions, we see Europe and in the other Netherlands over the year -4-6%. How do you see that evolving? Do you expect that to bottom out and the same for emerging markets? I think you already hinted at that the 35% was mainly South America; growth there has slowed a bit because of mining, and public markets. You also have Langdon & Seah coming in there. How do you see organic growth in that region for 2013? Thanks.

Friedrich Schneider
Regarding exiting of regions we don't envisage that we are going to exit a region here in Europe, so we are going to maintain the portfolio as is today. Regarding top line growth we are addressing the pockets of excellence. There are ten pockets of excellence that we have identified and that we are going to push very hard across Europe in order to make up the market pressure that we are facing and the shrinking of the markets that we observe at the moment. Obviously the Dutch market is affected the most in that context but we are managing that very carefully and very well.

Neil McArthur
Let me try the second one. All of the mergers or acquisitions that ARCADIS have done over the years have been private partnerships. We go back to BBL is a big one in the US, RTKL, Malcolm Pirnie, EC Harris and Langdon & Seah, and all of them have successfully worked within the ARCADIS framework in order to collaborate on a global basis as one ARCADIS and to drive growth and profitability, so we don't see any issue with that moving forward.

Renier Vree
The emerging markets will see a lower growth percentage than before, but that will become a much bigger part of the company, indeed including Langdon & Seah from quarter two onwards. In combination that will be very helpful to continue to generate organic growth. I think predicting
what will happen in Europe is much more difficult. We have seen in the Netherlands a decline in the last three years now. In the rest of Europe less so.

Neil McArthur
The positions we have built over time in key growth markets in Brazil, Chile, and the Middle East and in Asia. They all provide the opportunity now for certainly with Langdon & Seah from April for further organic growth and we are going to invest for an acceleration of organic growth in those growth markets.

Question
The question on the uptake on continental Europe what made you decide to update your midterm targets for the group, EBITDA margin and also organic growth?

Neil McArthur
We have a three-year cycle. 2013 is the last year of that. As I said one of the leadership priorities for this year is that we are going to go through that whole strategic review and target setting for the period 2014 through 2016. The targets that we set for ourselves, remember we have just managed this year to get to on the margin side at 10%. On the growth side it is a mixture of we’re overachieving on the growth we’re under achieving on the organic growth and we’re not there on our 15% in terms of return on invested capital that we set for ourselves. We haven’t achieved all of our targets yet, so our focus is to do that and the focus on that this year while looking ahead to 2014/2016.

Neil McArthur
Let me start and address the EC Harris issue. We have a very clear criteria for acquisitive growth. We look at opportunities proactively, we have a funnel of opportunities, and those comprise both emerging markets and mature markets. You should think of them as enhancing the capabilities and strengthening the positions that we already have. We have leadership positions in environmental. We have leadership positions in buildings. We have leadership positions in water and also infrastructure, so there are lots of opportunities for us to acquire and we have a strong pipeline that we’re carefully moving through and we will when we’re at the point where we’re able to meet the criteria bring those forward with the same vigour as we have done before.
Neil McArthur

Yes. In addition, Renier can talk a little bit more about the balance sheet that we have but there are no restrictions from a balance sheet perspective or from a management capability perspective. EC Harris the merger has gone wonderfully well and we’re incredibly happy with EC Harris as part of the team now. That is working effectively, you have seen the numbers, you have seen the growth potential and you have seen the excitement in terms of the types of projects that we can now win, the Kingdom Tower bringing the best of ARCADIS and EC Harris together, Langdon & Seah as well, a little earlier in that whole integration process, but that is accelerating as we speak, and so there is ample opportunity for us to do both.

Renier Vree

Talking about the border activities in Brazil, and the speed, because it is not that easy to as a guided working on that. We are at a point in time the output of those facilities is at a good level, so it means operationally in 2013 we also expect the results from those activities to be quite good. Of course carbon credit prices are pretty low, so we also think to now push a sale at this point in time would not bring us the highest price, because in the end also the combination of the gas that is coming out of the landfills that is being sold, plus the value of the carbon credit from the gas doesn't go into the air, determines the value and so with the management in Brazil we are looking at it carefully. There is an investment bank supporting us in that process, but we want to make sure we strike at the right time.

Friedrich Schneider

Well coming to your last question of course, I do not disagree with you, the Dutch market is tough and we will certainly not see a growth in the Dutch market, we will see a little decline for ARCADIS. However if you look at Germany for example, Germany is growing. The BMG acquisition for example is going to be a source of growth and also we are integrating a significant piece of EC Harris into our German operating which is bring and build as a consultancy feel that we have not addressed at all with our German organisation. There I expect growth.

In France we still see big infrastructure projects and this is where we are strong. As we speak we are tendering for example for the Grande Paris which is the closing of the loop of the Metro and Paris, it is a 20 or 25 billion investment and there are various slots that we are tendering for and I see that we will get some of those. It is pretty diverse across Europe, and I think by establishing our new organisation and focusing more on the pockets where we have sincere competitive
advantage and driving that across Europe I think we will gain market share and therefore achieve a 0% growth.

Cost synergies with EC Harris, well we are integrating about 200 people across Europe, mostly in Germany, Poland, France, and the Czech Republic. The types of cost synergies that we are achieving is first of all we are doing the integration without adding anybody to our back offices. It is really on the same overhead level that we are integrating additional revenue. More over we are moving offices, so most of the EC Harris offices are actually becoming new and we are moving them into our offices, that is another effect that we have. A significant one is also insurance. We have moved EC Harris into our insurance programme at a 0 cost. Then finally I think what we should not underestimate is the client base. EC Harris brings us a completely different client base which we can actually address and therefore again drive top line.

Question
Can you put a number on the overall EC Harris cost synergies?

Renier Vree
The improvement in margins comes from cost reductions. That is the short of it. You have seen how much EC Harris has improved in the year and how much we are ahead also of the original schedule. That is because of the more efficient way of running EC Harris than before.

Question
Are you willing to provide a breakdown along business lines for the European activity?

Friedrich Schneider
I can give that to you roughly, infrastructure is around 40%, water is around 10, environment around 15 and buildings around 35.

Question
Congratulations on the results. It is quite a good achievement in 2012. I had a couple of questions with regard to your restructuring. If you say okay the lease is being or being altered for the year for the offices in the next two years, that means that most of the cost savings of the 25
million comes from real estate. Is this right to assume that you are going to reduce the number of people in Europe from 5,000 to 4,500 in that sort of range? Is that in a good case or is that complete nonsense I would like to know. Then my second question is with regard to EC Harris with regard to the 7 million. Are you going to address the first quarter of 2012 and on a comparison base in 2013 on that figure for the adjustment for the EBITDA recurring etc?

Renier Vree
Thank you for your compliments; always good to get it especially form you. when you look at the 7 million, no, in my book the results are as they are so we have reported numbers in Q1, 2, 3 so we will explain and analyse and give you analysis of our results in 2013 compared to the prior year but I don't intend to make formal restatements. There to explain results as they come, that we get big expectation swings between the quarters in 2013.

Friedrich Schneider
You should not underestimate the lease first of all because over the last years with the decline also in revenues of course we just have too much space and on top of that introducing a completely new office utilisation concept that drives down the space requirement even further, so what we are doing actually at the moment is going office by office and are reducing the space as we speak even if the lease has not yet expired. We are actually just mothballing parts of our space in order to reduce cost. Then you don't need lights, you don't need cleaning, you don't need toilet paper, you don't need parking space and all that, so this is a significant effect that is taking place.

Moreover if you are looking for example of our IT costs, because of the fragmentation of our IT landscape, we are currently running 60 email serves across Europe, we just need, so also that is going to run down our cost again quite significantly and then there are all kinds of out of pocket cost categories that we have addressed and that we are looking at. At the same time of course we also looked at our capacity. We started by looking at our span of control, at our team sizes and at the productivity of our overheads and we have addressed that by reorganising for example our businesses in France and in Germany already starting in the first quarter 2013. On top of that we of course we will also look at our capacity but we are adjusting our capacity on a permanent level. Just to give you a little bit of a flavour here, in the Netherlands we were at the peak of our capacity in 2010, with about 2,700 staff. Today we are 2,200 staff by simply running down capacity on time based contracts, people who retire, people who leave us voluntarily and of course also involuntarily, this is all addressed in a very fine tuned matter and matched with the
order intake that we are able to generate, and this is a process that we are going to apply also across Europe now and we are going to use that best practice from the Netherlands.

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**Question**

My final question then is about the order book in environment services minus 11%. We hear that environment services in Europe, especially about the outlook for environmental services specifically in Europe and are you not afraid that you will see lower mix of margins due to lower revenues from environmental services or the risk.

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**Friedrich Schneider**

I am not so concerned about that. I think the landscape in Europe is quite diverse. I think private clients are still offering very good prospects and some of our operations we have to shift a little bit more towards private clients which we are forcing very, very seriously at the moment, but if I am looking for example at our activities in Germany, in Switzerland and in Belgium, but also in France the margins are not bad.

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**Neil McArthur**

We have a superior value proposition for environmental clients in terms of being able to remediate quicker, safer, and with superior technology than our competitors and that is why we are confident that in mature markets we are going to continue to have our position as a leading player serving the private sector and to take market share.

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**Joost Slooten**

I would thank everybody for their attention and give it back to Neil for the final close.

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**Neil McArthur**

Well I just would like to thank everybody for being on the call today. It has been a phenomenal year for ARCADIS, one of growth which we have completed three very successful mergers during the year. Our merger process that was started with EC Harris from 2011 is bearing fruit and we look forward to 2013 with vigour and with confidence about where we are. we are well positioned for growth in the emerging markets and we have a new plan for Europe which is a really important part of our business in terms of our capabilities that we will use to leverage further
growth in emerging markets and we have a very strong leadership position in the US that we are going to continue to build from. With that, I would like to thank everybody for being on the call. Thank you.