Company: Arcadis N.V.
Conference Title: Annual Results 2010
Presenter: Harrie Noy
Date: Monday 7th March 2011 – 15h00 CET

Joost Slooten: Good afternoon. My name is Joost Slooten, I’m the Director of Investor Relations for Arcadis. I’d like to welcome you to this Arcadis Conference Call. We are here to discuss the company’s announcement of the Annual Results 2010 which were released this morning. With us during the presentation today are Harrie Noy, Chief Executive Officer; and Renier Vree, Chief Financial Officer who will discuss the results and answer your questions about the results. We also have with us Dr. Friedrich Schneider, also a member of the Executive Board; and Doug Owen from Malcolm Pirnie Arcadis who will discuss water in relation to climate change. The PowerPoint presentations that are being used during today’s call are available through the Investor section of the Arcadis website to 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 the risks related to these statements which are more fully described in the company’s risk management reports which are also available on the website.

With these formalities out of the way, Harrie, please begin.

Harrie Noy: Thank you Joost. Welcome everybody to this Arcadis Analyst Meeting. A special word of welcome of course to the people that attend this conference call, that attend this meeting by conference call are most welcome. I’m going to introduce you to the annual results and the fourth quarter results and then Renier will give a more detailed explanation of the results that we achieved both in 2010 and the fourth quarter.
Let me go to the first slide and that first slide highlights that Arcadis was again able to increase profits in 2010 with gross revenues that came out above €2 billion. It’s just five years ago that we passed the milestone of €1 billion, that happened in 2005 and just five years after that event we have been able to surpass the level of €2 billion showing that Arcadis actually did better in the fourth quarter than we initially expected. Net income from operations is up by 6%, gross revenue for the total year is 12% higher. We were able to return to organic growth with 5% organic growth in the fourth quarter and we have seen organic activity growth in all segments, not revenue growth but our net revenue grew in all segments except for buildings. Our margin remained at target level despite weaker market circumstances in Europe. The dividend proposal includes a dividend of €0.47 up from €0.45 last year and I will come back later in this call more extensively to the outlook, but the outlook for 2011 is cautiously positive.

What you will have noted is this is again a year in which Arcadis was able to increase revenues and profitability despite the economic crisis, also Arcadis has been impacted by the crisis but we have been able to produce continuous growth because of our diversified portfolio with a good spread of activities both geographically, client and market segments. Our focus on higher value added services definitely has helped us, successful acquisitions and tight cost controls, those are I think the elements that have produced this continuous growth of revenues and profitability even despite the impact of the economic crisis.

The next slide highlights the main points for 2010. First as I mentioned already after seven quarters of organic decline we have been able to produce organic growth in the fourth quarter, substantial organic growth of 5% and that’s I think quite positive. You will remember that in 2007 we still had an organic growth of about 16% for the total company, then as of 2008 we were impacted by the economic crisis and organic growth went down each quarter in 2008 and actually became negative as of 2009. The whole of 2009 we have seen negative organic growth each quarter and actually organic growth was at its lowest point in the first quarter of 2010. Then as from the second quarter this year we started to recover with zero organic growth in the second and the third quarter and 5% organic growth in the fourth quarter of last year which shows actually that we have passed the trough of the economic crisis.
Where does this positive development come from? First of all from the recovery in the US environmental market. The economic recovery has impacted private spending and we have benefited from that increased private spending particularly in the environmental market which has produced an increasing organic growth throughout 2010.

The second positive point is Chile and Brazil. You know that I’m usually pretty cautious but I think that the market circumstances in Chile and Brazil can best be described as being booming. That’s driven by economic growth. That’s also driven by huge investments in both mining and energy projects in which Arcadis is involved and that has produced substantial growth in 2010 and given the backlog that we have available at this point in time we expect that growth to continue in 2011.

The third point has to do with our architectural design business RTKL. That business was strongly hit by the economic crisis but RTKL was able to recover from that economic crisis faster and stronger than we expected mainly by focusing on new contracts from Asia and the Middle East.

Against those three strong points we have also a weaker point which concerns Europe and the contribution from Europe both in terms of revenue and in terms of profitability has been lower mainly caused by pressure in local markets. It’s not so much central government spending that has had an impact up until now, on the contrary big projects continue to do quite well but pressure on local markets has driven both revenues and profitability down in Europe.

We did a big acquisition in 2009 and as of 2010 we have spent a lot of energy on the integration with Malcolm Pirnie. That integration is on schedule as of 1st January this year we have an integrated organisation in the United States and the focus in 2011 will be on the integration of the corporate functions and that’s expected to be finished in the second half of this year. If we look to synergies, particularly market synergies, so revenue synergies then we have been pretty successful because in 2010 we have had more than 100 million in revenues which has been produced by a strong cooperation between the Malcolm Pirnie team and the Arcadis US team and that shows how successful that merger has been up until now.
The other main item in 2010 has been our strategy review that has been communicated together with the third quarter results. The strategy review as part of our regular planning process, we’ll summarise the highlights of that strategy review in a minute. Within that framework of our strategy review we have also looked into our business in Brazil and that has led to the conclusion that we have so many opportunities in our core business in Brazil that it would be useful to get more focus in our Brazilian activities and that’s the reason why we have decided to sell off our investment projects, sell off our energy projects and focus fully on the core business which is the project management activities and the consulting and engineering business because of the ample growth opportunities that we see in that business.

The next slide highlights the developments in the fourth quarter. As mentioned already organic gross revenue was up by 5%, net revenue by 3% again driven by strong growth in the US environmental market and this was not only growth which was reflected in net revenue, we had a particularly strong growth in gross revenue because of the start of large remediation contracts, actually the remediation contracts, they were partly acquired already in 2009, some large projects that came into execution that caused quite a bit of subcontracting in the fourth quarter and that gave an additional push to our environmental business in the fourth quarter.

I mentioned already that Brazil was doing quite well and again in the fourth quarter in December, one month we acquired about $100 million in new contracts in Brazil, one for Angra which is project management for a nuclear power plant; and one for Votorantim Cimentos which includes four new cement factories for which we will do both project management and engineering.

We also had strong growth in Chile where we benefited from investments in mining; in Germany good growth where we benefited from the fact that the German economy is doing quite well; and also in Belgium we have seen growth which is mainly driven by picking up of industrial spending for buildings.
In the remainder of Europe including the Netherlands both revenues and profits were lower due to less demand in local markets and in Poland we have been hit in the fourth quarter by delays in road projects, quite unexpected delays in road projects as far as the government decided to put those projects on hold at least for a period of time because of some issues in financing and that has had a negative impact from our revenue and profitability in Poland in the fourth quarter.

We were able to complete two acquisitions in the fourth quarter, one smaller one, GFÖB, Gesellschaft für Ökologische Bautechnik Berlin, a small sustainability business focused on buildings, very specialised high consultancy type of business with 15 employees which fits very well within our German operations; and a larger acquisition, Rise International, a project and programme management company, high level consultancy mainly focused on buildings with a lot of experience also in the private sector which allows us to further expand that type of business both in the United States and internationally.

The last point to mention in the fourth quarter is of course that we moved our corporate headquarters to Amsterdam which is quite a step for a company that has a history of over 100 years and I can tell you that we are very glad to be here in Amsterdam because this place allows us to show the fact that Arcadis has changed to a real international company but even more importantly it allows us to invite our own people here at this corporate headquarters because this is supposed to be a hub where people can meet, where we can discuss plans for the future as a basis for developing synergy, so to a certain extent this corporate headquarters also reflects the strategy of Arcadis.

Having said that, Renier, I would like to turn the show to you to explain the fourth quarter and year 2010 results.

Renier Vree: Thank you very much Harrie. Good afternoon everybody, I’m pleased to be here with you and share with you the results for the fourth quarter and the full year in a bit more detail. I’m now on slide number 6, here you see the figures for the fourth quarter, you see that our gross revenue has grown 12% to a level of €540 million and also the EBITA has grown 12% which
ended at €39.7 million. Our net income from operations as defined as net income firstly after the tax impact of amortisation and other one-offs if applicable was at €23.7 million which is 1% more that the same period in 2009. Because the number of shares slightly declined the earnings per share improved to €0.36 which is 2% higher than the same period in 2009.

If we look at the next slide you see there the physical, the overview of the development of the revenues over the last years and I would like to draw your attention to the yellow bars which indicate the organic development. There you see very clearly how high the growth was in 2007 with more than 15%, came down in the course of 2008 and was negative in 2009 and the first quarter of 2010. After that we had two quarters of flat revenues, then in Q4 growth returned with 5% through which the full year organic growth was exactly 0%. The blue bar indicates the development of the acquisitions which I think you are quite familiar with from the various communications we have had about that. Also there you see that the acquisition effect in the full year 2010 was approximately 8%.

When we zoom in on the development of the net revenues here over the four business lines then there are quite some differences to mention next to the overall trend which I just explained. You see here that there is a particular improvement throughout the year in the environmental business which had a strong pick-up in the fourth quarter while the infrastructure business remained at a good level. You see that buildings improved throughout the year and came from a very difficult situation in 2009 and the beginning of 2010, it was flat in the second half of this year while the water business remained positive, also the fourth quarter came down slightly.

If we take more details into the EBITA development, the growth of 12% in the fourth quarter, you see here the breakdown of that growth. 8% came from currency and there’s an impact of acquisitions which is -3% and the reason for that is that in the fourth quarter of 2009 we sold an activity in Germany which we booked a €1 million gain and that’s the reason why now you see the impact of that as a negative in this overview. Carbon credits added 5% to the EBITDA and other organic was a plus of 3%. That’s despite the fact that we had reorganisation charges of
€2 million which were higher than the year before, so if you would back that out it would affect the true organic growth you could say was even slightly more than this.

I’m now on slide number 10, you see the figures for the full year, also 12% growth of gross revenues, 13% even in net and also 12% in recurring EBITA. On EBITA 10% in the recurring EBITA. There has been a currency impact of approximately 4% on revenues and 5% on EBITDA. I think you remember that in 2009 we had a €2.2 million impact of Lovinklaan one-off which we added back coming to recurring EBITDA for the year 2009. Earnings per share for the full year were €1.19, so a 1% increase compared to the year before.

We see also here graphically on the next slide where EBITA improved from €78 million and a bit in 2006 to €135.9 million in 2010 which means that there’s a compounded annual growth rate of 19% of EBITA. If you take into account that in 2008 we had a gain in Brazil for energy projects of 6.8 million and we had a 3.2 million loss in 2010 then the graph would look even more logical if you would do that.

The recurring EBITA on the next slide has increased by 10%. Also here the breakdown is that currency helped by 5%, acquisitions is in particularly the impact of Malcolm Pirnie and of course again this effect of the German divestment in total added 5% to our EBITA; energy projects, a 3 million loss in Brazil had an impact of 3 million; and then carbon credits was a 1% positive effect for the full year compared to 2009. That means that the other organic growth is approximately 1% if you also take into account here that the restructuring charges were approximately 1 million lower in 2010 than 2009. That means that the underlying organic growth after profitability was approximately zero because then the effect of the two forces that Harrie mentioned, an improved profitability in the US, in Brazil and RTKL, we saw a decreasing profitability in Europe and we will get back to that in a bit more detail later on.

On the next slide you see here that the margin level was maintained for the full year not taking into account the positive effect of carbon credits and in 2010 the negative impact of the energy project in Brazil was 10.0%, for the fourth quarter 10.9% so a level that’s very close to what was also the quarters and years before, very much in line with our targets. The other financial
details, carbon credit impact for the full year 2010 was 1.9 million, most of it realised in the fourth quarter. Financing charges were 4.6 million in the fourth quarter up against the fourth quarter of 2009 and also for the full year higher and the key reasons for that are the fact that we attracted debt to pay for the acquisition of Malcolm Pirnie because most of our debt is kept in US dollars. Also the stronger US dollar has an impact there. Of course we have made additional investments in Brazil where interest rates are higher, that’s a third reason why financing charges in 2010 were higher than in 2009. The tax rate came in for the full year at 31.1% which compares favourably against 2009 where if you take out the effect of the participation payment for local clients was 32.7% which has to do also with the optimisation of our financing structure that we were able to complete in the course of the year. Another line in the P&L on minority interests at the moment went up which is of course I would say the consequence of the fact that we are doing so well in Brazil where we shared a profit on an equal basis with our joint venture partner.

On slide number 15 you see the net income from operations has developed from €50 million to €78 million in 2010. Also here the compounded annual growth rate has been 19% and earnings per share from €0.82 in 2006, as I mentioned €1.19 in 2010. Cash flow came in at a good level. The yellow bar indicates a cash flow calculated at net income plus depreciation while in the red bar you see the cash flow from operating activities, so including the impact of working capital. What I want to point out to you here is that in 2009 in particular in the fourth quarter we had a significant reduction of working capital because the top line came down and we collected a lot of receivables in 2010 with the fourth quarter which is much more normal with the growth of 5% that I mentioned, here of course you don’t see the same effect, you see the effect the working capital is at a normal level but therefore those bars including working capital show a different pattern in 2009 than in 2010.

On the next slide, on 17 we show you that working capital was 13% by year end, so nearly the same level as the end of 2009 when it was 12.9%. Our net debt was €207 million by year end compared again to another €74 million at the end of 2009. It’s important to mention here that a €24 million impact came from the stronger US dollar. Another effect is that in the fourth quarter we did after payments for Malcolm Pirnie and we also did the acquisition of Rise that
I’ve mentioned which also increased our net debt. The ratio of net debt over EBITDA is 1.4, that’s based on a calculation we have agreed with the banks which is an average of the situation at the end of June and the end of December and then we average that out. That’s how it’s written in the covenants. We will just take a snapshot of the end of December then the net debt over EBITDA would be at a level of 1.2. The return on invested capital is 30.9% over the year 2010, at a good level, it came down a bit because of the additional acquisitions that were made over time and of course 2007 was also the year with the highest EBITA percentage that we have had.

Moving on to the business lines, slide number 19 where we show graphically how gross revenues have developed both nominally and on an organic level. Nominally infrastructure grew 2% but organically declined by 4%. Water grew 44%, that was flat on an organic basis, here Malcolm Pirnie explains most of the growth. In the environmental business, our largest business revenues grew by 16% and 6% on an organic level. In buildings it was -2% and organically a decline of 5%.

Sharing a bit more details on the four business lines, in infrastructure the organic net revenue grew by 3% so contrary to the gross revenue which declined by 4% which is a consequence of the fact that we have less subcontracting in Brazil as the phasing out of the work on the energy projects, but also because winter in 2010 was a bit particularly in the Netherlands where both at the beginning of the year and the end of the year there was a severe winter, there was less work happening outside than usual. For the rest the growth in this business line came from especially Brazil and Chile. That was very much driven by the clients in the mining sector as well as the energy sector. In Europe on the other hand we see there reduced spending from governments in particular which led to lower revenues and also price pressure in the rates we can charge. Netherlands and also Czech Republic were able to grow their top line despite the circumstances and also in the US we are seeing trends that their infrastructure business is stabilising.

Moving to the next slide for water where as mentioned most of the growth came from Malcolm Pirnie. Here the net revenues grew by 3% for the year and we saw a slowing of the growth there in the year which is a consequence of austerity measures taken by governments here. On
the one hand we see there water management activities in Europe increasing also as a consequence of flooding in many places where many governments have put coastal protection and taken actions against flooding high on their priority list, but also the projects on the other hand in the US for instance for the new audience projects are coming to an end which offsets some of that growth in Europe. We see that Malcolm Pirnie is doing well in the US. I think you saw last week our press release, the big projects that we won in Virginia for water treatment. Also we see here that with the help of Malcolm Pirnie we have been able to gain business in Chile. Finally in the results in the EBITDA of the water business there’s an effect of project losses on water projects in both the Netherlands and Brazil. I will show you later a bit more about that.

The environmental business, also here an impact from acquisitions because the environmental business of Malcolm Pirnie was added to the environmental business line that we have. Net revenues grew organically 1% so here it’s less than the 6% on gross revenues because of less subcontracting, more subcontracting for the remediation projects in the US I should say. The growth rate particularly in the US and also in Brazil, corporations are fuelling demand here and towards the end of the year 2010 we saw an increase in the number of remediation projects that now came into implementation which were gained over the last quarters.

In Europe on the other hand we see there that the governmental market is under pressure and that the private sector is not yet picking up say where the government leaves it, so there is still a bit of a sluggish market in Europe. Especially in the UK should be mentioned here where both revenues and profit declined sharply in 2010 after we completed a number of large projects.

Buildings, organically negative 5% on growth, 6% in net revenues. There is indeed in effect a separation to make between the first half of last year and the second half where the first half is still in very much negative territory where in the second half we reported flat top line. RTKL did well, showed a strong recovery with work for the Middle East and China done partly in those countries but also to a large extent being executed from the US. The market in England stabilised after a difficult 2009, so in Belgium an increasing demand for instance for private healthcare and also for data centres, in Germany we are working on the Berlin Airport which is a
big project which is important to us, while the public sector clearly has budget pressure and there we see a much softer market. The profit of the buildings’ business line improved because of the restructuring measures that were taken in 2009 and also because RTKL did well.

On slide 24 you see the margins for the business lines with infrastructure coming in at 10.2% against 11.7% in 2009, water dropped from 8.9% to 7.2% and here one of the contributors for these project losses in the Netherlands and Brazil, if you would make an estimate of an impact, approximately half of that gap can be explained through those project losses. The environmental business was stable with a margin of 12.3%. The buildings business clearly improved most from 6% in 2009 to 8.2% EBITA margin in 2010, therefore in total had a margin of 10% as explained to you before.

When we look at the regional development on slide 26, here in revenues the Netherlands dropped by 5%, organically by 6% to a level of close to 400 million. In the rest of Europe the top line was flat and if we back out the currency impact it’s a negative growth of 2%. The US grew 23% but as the impact of the full year now of Malcolm Pirnie but also the stronger US dollar and if you back that out then the US had a growth of 2% while the rest of the world saw a growth of 23%, organically 3% which may look at bit low to you but let me also explain that in those numbers there is the effect that in 2009 we still had those big energy projects which we could work on. If we take that effect out of the equation then the growth is more like 20% in the rest of the world on an organic level.

The margins by region, the Netherlands had a margin of 9.8% which is approximately 1% lower than it was in 2009 showing that despite difficult market circumstances we could still achieve good margin there. In the rest of Europe the margin dropped from 6% in 2009 to 3.7% in 2010 and here I mentioned already the UK but also in Belgium and Poland are three of the countries where we saw a decline of profitability. In the US the margin went from 11.8% in 2009 to 11.4% showing that the US did well and Malcolm Pirnie which as you know which has a profitability slightly below the average for Arcadis is the main reason that the margin for the US is a bit lower than in 2009. In the rest of the world the margin came in at a very nice more than 15.3% which is made up of Brazil, Chile, Middle East and Asia.
If you look at the geographical mix then the shift between 2009 to 2010 is that the US became even bigger, they are now 53% of our revenues as a consequence of the stronger US dollar and of the fact that Malcolm Pirnie is now fully consolidated for the whole year. The Netherlands for basically the same reasons went down to 20% also because there the top line came down.

Also the next slide on the client split over the three categories, here the category of public sector, those clients were 37% in 2009. For the full year 2010 it was 35%. In the fourth quarter of 2010 it was 32% so here you see that the public sector became a less important, less sizeable client category for us. The fact that it didn’t come down for the full year as much in 2010 is that Malcolm Pirnie has relatively more public clients. On the other hand the private sector went from 44% in 2009 to 49% for the fourth quarter of 2010, so clearly showing the shift we see in our client development.

I think with this Harrie, I’ll hand it over back to you.

Harrie Noy: I am going to close with a few remarks about strategy and then I’ll finish with the outlook. Let me first make a few remarks, that’s slide number...I can’t see the number. The slide which has the header ‘Energy Projects Brazil’. That shows you the potential impact of the change in strategy with respect to the Brazilian energy projects. As I mentioned before we have revised our strategy for Brazil and the goal is to focus more on our core business as of this year. The reason that we have made a change is actually the huge amount of opportunities that we see in the Brazilian market and spreading our attention over a too wide range of activities is not very helpful in grasping the opportunities in the marketplace, hence the reason why we decided to bring more focus in our business and to focus on the core activities which includes the project management business, the consultancy and engineering activities and these types of services. That means that we are going to sell, the sale of developed energy projects. There are two categories of those, the biogas business which includes the biogas installations on the landfills in the vicinity of Sao Paulo and Rio de Janeiro; and the second category is a portfolio of small hydro power plants. Both will be sold. As far as the biogas is concerned we have an agreement in place in the meantime to sell a large part of that business, not totally but most of it. That’s not
definitive yet because we are still waiting for the approvals of both the City of Sao Paulo and the City of Rio de Janeiro. As you might know it’s carnival now in Brazil so at this point in time I think there’s not that much activity. There’s a lot of activity but not in terms of getting an approval for the sale. We expect that within the coming months and then the sale of the biogas business will be definitive. As soon as that happens the biogas business will be deconsolidated. It’s now consolidated because Arcadis has almost a 50% stake in the biogas business and Arcadis has again a 50% stake in Arcadis Logos, it’s a little bit complicated but it will be deconsolidated and valued at market rates as from the moment of deconsolidation. Proceeds eventually will depend also on gas production because you can imagine when you sell that type of business you can’t sell it at a fixed price, so there is kind of a range which depends on the gas production and of course on the amount of carbon credits which is also related to the gas production. We think that the impact on net income from operations in 2011 will be 3-5 million. That’s not a total impact but that’s the impact on 2011 and the remainder of the impact will be in the coming years. This amount excludes the potential impact of the sale of the small hydro power plants, so this only relates to the sale of the biogas business. The small hydro power plants are up for sale as well. We expect that we are going to sell some of those small hydro power plants in 2011 and that will generate an additional contribution which we will disclose as soon as it happens separately.

This summarises our strategy for 2011-2013. You know that we revised our strategy as part of the regular planning process and you could say that our revised strategy builds on the successful track record that was created through our previous strategy, so it’s not a big change in the course of the company, it’s kind of a logical continuation of the strategy that we had in place. Our ambition has remained the same, we continue to look for global leadership positions in each of our business lines by focusing on key clients, so running our business on a client basis rather than a project basis, leveraging client relationships that we have, an important element of our strategy; leveraging our capabilities globally, the best example the New Orleans project but we have many other examples; and Malcolm Pirnie with the water capabilities that came in through the merger is also definitely giving lots of opportunities to leverage those capabilities across the globe; and the third element is a growing selected emerging markets. That gets more emphasis under our revised strategy because we have seen now through the developments
especially in Brazil that these markets offer ample growth opportunities not only in the short term but definitely also in the long term, so growing emerging markets is an important part of our revised strategy.

We have maintained ambitious goals going forward with respect to growth. We aim for a 50% growth and our margin should remain above that target level of 10%. Our organic growth target has been adjusted a bit. We had 50% of the 15% but it has been revised to 5-7% organic growth and that was taking into account the uncertainty that’s caused by government austerity programmes and the potential impact thereof on our infrastructure business. We have developed clear plans and targets for each business lines. We have disclosed both the plans and the targets when we disclosed our third quarter results. It will be included in our Annual Report as well. We are actively pursuing acquisitions in a consolidating industry, that’s an important part of our strategy going forward because the gap between the 5-7% organic growth and the 15% overall growth target should be filled by acquisitions and our goal is to become a leader global brand attractive for both clients and particularly also our staff because they make the difference at the end of the day.

That brings me to the outlook, the next slide for the different segments. Infrastructure, we expect the pressure on public budgets to continue both in Europe and the United States. On the other hand Arcadis is involved in many multi-year projects with committed financing, we’re gong for often big projects particularly in Europe, thinking about the A2 in Maastricht, in France we have often public-private partnership projects that start this year and we recently acquired also a big project in Poland. So big projects with committed financing are an important cornerstone of our business in Europe.

We see also more demand for public-private partnerships, I mentioned already the project in France that’s going to start up this year but we see also in other European countries governments looking for alternative financing in the private sector in order to compensate for budget deficits with the government themselves. We also see an increased amount of intelligent traffic systems in order to make better use of the existing transportation systems.
The last point to mention is Brazil and Chile. We have a very strong backlog in both countries and we expect the strong growth that we have seen in 2010 to continue in 2011. Keep in mind that the backlog that we have in place at this point in time does not include any impact neither from the world soccer games nor from the Olympics and those events will certainly boost infrastructure spending in Brazil.

Water, we think that water will be relatively stable due to its character. Water is a utility, it is financed separately, it is not financed out of regular tax but it’s financed usually from specific contributions that people make to use water and to clean water. In the United States of course work on new installations has decreased, that impact has appeared already but we see quite a bit of demand for upgrades of existing facilities and also demand for process optimisation of existing facilities in order to reduce costs.

In water management the recent flooding you might say all over the world have put water management high on the agenda and Arcadis is a specialist in that area as you know and with respect to the expanding of our capabilities to countries like Chile, Brazil and the Middle East we can definitely benefit from the special capabilities that we have both in Malcolm Pirnie but also in the Netherlands.

The environment, we expect further growth driven by the economic recovery and driven by private sector demand which is based on that economic recovery. We have seen that already in the United States and Brazil and we expect to see that type of impact coming up in Europe as well.

Many companies, many of our clients are looking at vendor reduction, so reducing the number of service suppliers that they have and also companies looking at outsourcing of their environmental portfolio and that can allow us to grow market share. In 2010 our order intake was very limited. We had a good GRiP order intake in 2009, projects that came into execution in 2010 but new projects in GRiP in 2010 were acquired. Nevertheless we see that our GRiP pipeline is well filled and we expect that to have an impact in 2011.
Last year we acquired also some big contracts, framework contracts from the US Army both in the United States and in Europe and we see that gradually now both in the United States and in Europe work from those contracts is coming in.

Buildings, the last segment. The situation in buildings has improved. The commercial property market has stabilised. Demand for redevelopment of existing buildings is growing. On the other hand we see that in the healthcare market a slowdown in the United States has taken place caused by the discussions of the healthcare reforms which have not finished yet, so that’s delaying healthcare projects in the US. On the other hand RTKL is continuing to focus on growth in Asia and the Middle East in order to compensate for the decline in the United States marketplace.

Driven by the economic recovery we see also more investments from corporates in data centres, in office buildings, those types of things and in the meantime we have closed several framework contracts with multinational companies to help them with those types of buildings across the globe.

That brings me to the last slide, the outlook for 2011. Our backlog is healthy and 9% up compared to last year which means that also in the fourth quarter our backlog grew again with a bit over 3%. The government austerity programmes give uncertainty especially in Europe. On the other hand we expect the economic recovery to have positive impacts in both environment and buildings. The emerging markets offer a lot of potential. Maintaining margins remains a high priority also in markets with price pressure and further expansion through acquisitions driven by our updated strategy is high on our agenda. On balance looking to all those developments we are cautiously positive about 2011 and we would expect an increase of revenues and profit barring unforeseen circumstances and barring currency impacts.

That brings me to the end of our presentation and we are now ready to take your questions.

Chris Gibbons: Hi, Chris Gibbons, Petercam, a couple of questions. Firstly looking on your water division you already detailed that indeed the two projects had an impact of some 80, 90 bps.
What does this imply for the remaining business? Is it mainly in Europe where the margin went down or is it also some activities in the US? Could you shed some light on that? Then looking at the balance between your regional activities, we can see that indeed the US is now 53% of sales but almost 60% of EBIT. Looking at M&A in this respect would you then prefer going to Asia and LatAm or would this not be hindering you that you’ve got temporarily like a more skewed business towards the US? Then also looking for example on the carbon credits, you’ve got on your balance sheet a net position of 1.2 billion looking at the assets to be divested. Is that linked to this or what’s that number on the balance sheet that you provide over there? Also the detail which was not provided yet, could you provide me the backlog evolution per division? Thank you.

Renier Vree: I can share with you on the water margin, indeed 80-90 basis points we can explain through the project losses in the Netherlands and Brazil. The water business in the US has been doing well so there is no drop off of margin in the US. The remaining margin drop has come from Europe.

Harrie Noy: It has to do with pricing pressure particularly in the European market because of government budget cuts. M&A, you’re quite right so if you look to both revenue and EBIT we are well represented in the United States. It shows that the United States is a good market because despite the crisis we have been able to maintain our business quite well in the US. That has of course to do with the fact that in the US market it’s relatively easy to adjust to the cycles in the market. Arcadis wants to be an international business which means that the focus of our expansion is not so much on the United States. I mentioned that also after we acquired Malcolm Pirnie, so after Malcolm Pirnie joined Arcadis I mentioned that also to US management that the focus in the United States would be on the integration with Malcolm Pirnie, getting synergies out of the merger and focusing on reaping the benefits. Nevertheless the first acquisition more or less at least some of the bigger acquisitions after that we did in the United States again because we had this opportunity with Rise International. The focus basically is on expanding our business preferably in the emerging markets which means either in South America or in Asia. That’s definitely the highest priority for the time being but that does not exclude that we look for opportunities particularly within the framework of consolidation in
Europe as well. This consolidation at a certain point in time is going to accelerate. We see some indications that this is happening already and where we would have an opportunity to benefit from that consolidation process in Europe we will certainly seriously look at it.

Renier Vree: Maybe on the assets held for sale, there’s a typical IFRS requirement if you have taken a decision to sell some of the assets you have to classify them as held for sale. That’s not carbon credits because those we only recognise when we have received them, so there’s no assets on the balance sheet linked to the carbon credits. Typically if there are certain activities that we plan to divest we have to classify them as such. We also see an amount on the other side of the balance sheet for liabilities almost for the same amount, so those are typical activities that are on the verge of being sold off.

Chris Gibbons: You don’t say in which regions, mostly Europe then something…it’s nothing to do with your strategy in LatAm?

Renier Vree: That’s correct.

Harrie Noy: As far as the backlog is concerned, you’re correct, we usually mention the split of each of the business lines. Year to date for the total business the backlog would have been 9%, the split as follows over the different business lines, 23% for infrastructure so we had substantial order intake in infrastructure in the fourth quarter, 3% in water which is more or less stable compared to the third quarter year to date, 6% in environment and 2% in buildings.

Chris Gibbons: Perfect, thank you.

Jeroen van Harten: Jeroen van Harten, RBS. A couple of questions from my side too. One thing you’ve got to help me out with because if I look at your description of infra and your description of water you seem to be more cautious if I’m not mistaken on the infra business and rather optimistic on water. Still if you look at the growth rates and net revenues in water that is definitely coming down it seems, it’s now at about 0% whereas infra is still growing at a fine pace and you’re actually confirming this by saying the order book is looking rather splendid I
would say. Can you please explain why you seem to be more negative on infra and more positive on water? On Brazil that’s growing fantastic at the moment. How are you dealing with staff intake and second of all the margin is also very good, over 15%. How are you dealing with wage inflation? Are you seeing anything coming from that? The last question I have is really on the rest of Europe. In the last couple of years Arcadis has lost more than half of its profits really in the rest of Europe. Do you think it requires more drastic measures in terms of maybe divestments or further restructuring to get that profitability back to where it should be, over 5% I would assume? Those are my questions.

Harrie Noy: Yes, maybe a few remarks about what’s going on in the infra business and the water business because you mentioned that we seem to be more pessimistic on the infra side than we are on the water side while the figures actually would suggest the reverse. I think if you look to the infrastructure business it’s good to make a difference between the different geographies because what drives the growth in infrastructure, that’s mainly the positive development in South America. That’s the strong driver of the growth in the infrastructure business and we are not pessimistic about that development at all. That development is expected to continue. Where we have the uncertainty, as I say I’m not negative about the infrastructure business in Europe but where we have uncertainty is in the infrastructure business in Europe. I wouldn’t say negative but uncertainty and that has to do with the fact that up until now we have mainly been hit by reduced spending in local markets and our business in the big projects have continued, but there is of course some uncertainty in that respect. We do not have indications that these life projects were going to be hit as well but of course there is uncertainty because we don’t know exactly how the government programmes are going to have an impact on our business. We have seen some of that uncertainty in our business in Poland where in the third quarter and the end of the third quarter I think some of those major road projects on which we were working were postponed, were delayed and we got the order from the government to stop working on those projects because we don’t have sufficient financing in place to continue with those projects. So that’s a good example of that uncertainty. On the water side you’ll see that the revenue growth has gone down a bit but we are pretty positive in terms of the potential impact in the water business because the water business is a utility and it is in that sense more protected than the infrastructure business. I would say the water business is relatively
protected given its character, given its utility character and infrastructure it’s a matter of a balance between on the one hand the very positive developments in Chile and Brazil, good developments also in the large projects in Europe but with uncertainty on government spending going forward. Then Brazil staff intake, could you say a few words on that Friedrich?

Friedrich Schneider: When you are growing at around 20% in Brazil or in Chile, this is a big challenge, I fully agree. On the other hand our order intake is so strong that we can be extremely selective with respect to what type of orders we are taking in. We are still able to maintain our profitability margin. It is a challenge in terms of providing a quality job and growing the companies that fast but so far we have been able to step up to the level and to maintain the margin.

Harrie Noy: The remainder of Europe, can you take that question Renier?

Renier Vree: Yes, the question is because the margin in the remainder of Europe has come down over the years significantly where we need to take additional measures. When you look at restructuring charges we have taken in the last half year they have been to a large extent in the remainder of Europe. We have taken charges in the Netherlands, in Belgium, in the UK, Poland to deal with this so I think we have started the year in that sense at a more prepared footing than we were a while ago. Nevertheless in the situation the market is not going to improve then we would of course again look at additional measures because as mentioned the objective to maintain our profit margins is most important. I think the measures that we had to take to deal with the current level of business were largely taken already.

Jeroen van Harten: Quick follow-ons, first of all on Brazil Mr. Schneider you’re saying we’re able to maintain margins, actually you’re not exactly maintaining them but growing it at a rapid pace. It’s 15.3% rest of the world margin versus less than 10% the year before. What kind of pattern should we expect in the years to come?
Friedrich Schneider: As I said we’re trying to maintain the margin at the level where it is in Brazil right now, not compared to the Arcadis level but to the Brazilian level. The same is true for Chile. I think over the last years we’ve seen very stable margins at a very attractive growth rate.

Harrie Noy: In 2009 we were still impacted by low profitability on several of those hydropower plants that were under development because we have been very successful with some of the smaller ones which have here the strong book gain when we sold them. In 2009 we were working on some of those projects that did not produce any profitability and that has impacted our margin in Brazil in 2009 substantially. We had some of that impact in 2010 as well, the 3.2 million loss that we have reported over the first three quarters in 2010 despite the fact that some of it has been compensated by the sale of energy projects in the third quarter is still reflecting that negative impact on margins.

Teun Teeuwisse: A few questions, most of it on Brazil again. The sale of the biogas. You sell it but you’re still very dependent on the proceeds of it in the coming years. I wonder why you sell it then because you don’t have any control over it anymore. Second question on the opportunities for infrastructure in Brazil. How well is your organisation in place right now to deal with that, I’m referring to the World Cup and Olympics of course? If you’re looking at acquisitions in Brazil, what would the structure be given the joint venture that you have in Brazil? Final question is on the pricing pressure you mentioned. In a pricing pressure environment what action will you take to preserve your margins?

Renier Vree: It’s a very good question. In the end the management in Brazil is also good so you have to decide what you want your people to focus on and if you see that the market is very hot, that there are many opportunities to pursue and many projects to manage to maintain this growth at a good profit margin and we said “Well, it’s better than to have focus on this consulting and engineering business and grow that at the best possible rate rather than having them in that sense be distracted by the other projects”. I think the deal we are going to have is an attractive view and I think that’s why on balance we thought it was better to pursue the direction that we mentioned.
Harrie Noy: Maybe one additional remark. What we experienced with those investments particularly in the hydro power projects has also taught us that you can have good gains but there’s also a risk profile related to it. I think by focusing on the consultancy engineering business we get a better risk profile for our business in Brazil, that’s one thing. Secondly the investments in those projects also consumed quite a bit of capital and I think with the divestments we are going to free up capital, that we can invest in businesses with a better risk profile than the investment projects. Infrastructure growth, could you take that Friedrich?

Friedrich Schneider: Referring to the Olympics and to the football championship, the type of projects that you should think of is mostly infrastructure projects. If you look for example at the condition of the airports in Brazil and most of the visitors will come in my air, they are not let me say at the level where Brazil should have them. There are going to be tremendous investments in airports. We have just concluded a partnership with Aéroports de Paris with whom we are also working together in Chile, so we are going to support them in their bids to revamp those airports. Another good example is public transportation. There is a high speed rail line planned from Sao Paulo to Rio de Janeiro and those are huge infrastructure projects and Arcadis Logos is among the top three project management companies together with [MJ Weekes] we have a reasonable chance to get a share out of a business like that and so on. If you’re looking at the water supply and water management issues in Rio de Janeiro, those are tremendous. It’s these kind of projects that we’re looking at.

Harrie Noy: Your next question had to do with the structure, whether we are going to expand through acquisitions how we are going to use the business. In principle we do because we have an agreement with our partners that all our business in Brazil will be through the joint venture that we have with them. Our partnership as I have mentioned before has been very successful over time. We started the partnership in 1999 with about 200 people in the business. We have more than 2,000 people in the business, so times 10 in a bit more than 10 years and I think both partners are very happy with the cooperation and we count our blessings so to speak. How do we deal with price pressure?
Renier Vree: It’s more price pressure in the sense that wage inflation will go up in Brazil, of course there’s clearly rewards for competent people. The good thing is that typically our contracts are on a cost plus basis, that means we have a way to manage this risk because usually you deal with large projects that are very important to the clients so they are willing to have these risks more towards the clients than to stay with us.

Teun Teeuwisse: Actually I was referring to price pressure in the group as a whole.

Renier Vree: I thought you were mentioning Brazil. I think you were hot on Brazil like we are. Overall I think you have seen it from the numbers and if you also analyse the way our costs have developed also in 2010 then the full year taking net revenue, our net revenue was up 0.3%, our costs were up 0%. We have been able to deal with the pressure in revenues in all the places were we sold that bringing down also our costs and that’s I think the best way to deal with it, to continuously look for efficiency and drive the availability and challenge established structures and setups if they are competitive.

Harrie Noy: The issue is of course focusing on the European marketplace and in order to be price competitive as Renier mentioned we have to increase our efficiency and to adjust our cost structure and in order to support our European management in that respect we brought over one of our most experienced managers from the United States to help implement in Europe what we call the best practices programme which is focused on improving operational excellence in order to improve our competitiveness in the European marketplace and improve our margins in Europe, so that’s an important priority going forward.

Philip Scholte: Philip Scholte, Rabobank. First of all on the project losses, we knew about the Brazilian one but what happened in the water project in the Netherlands and given that the word ‘project loss’ is occurring more often in your press releases, does that mean that your pricing structure or your process structure is changing? Is there more risk involved in how you deal with your business? Can you say a bit more on that? Secondly the organic growth in Q4 on a net basis, it actually was down in water and down in buildings and especially in the buildings segment your comments actually seem to suggest that things are improving with RTKL, but why is buildings
down? Then thirdly you are referring to the potential impact of public budget cuts in the US, but if I read what the Republicans want to do there I would be highly worried with what they say about the Environmental Protection Agency with water infrastructure, waste water treatment. It is actually in all areas where you are active. How do you look at that?

Harrie Noy: First the project losses in the Netherlands, I think this is the second time that we did project losses so I don’t know whether it’s justified to speak of a pattern. The reason that we mentioned those project losses is because they had a strong impact and we want to prevent an impression that this was caused by the merger with Malcolm Pirnie actually is holding up their profitability quite well even under the present market circumstances and is performing a bit better than we expected at the time of the merger. These projects also in the Netherlands and I think Brazil is more or less the same story have two reasons. First of all and the first reason is specific for the Netherlands, pricing rate pressure in the Dutch government market because these are government projects; and secondly and that’s the same for Brazil I think and the Netherlands it’s project management after we acquired the project, so we are trying to learn from those experiences in order to prevent that this is going to happen again. Then your question about organic growth in the fourth quarter, indeed if you look to those two business lines that you mentioned then on a gross revenue level both have produced negative growth. If I look to net revenue then water was about stable and buildings was about negative, 3% negative in the quarter. In the third quarter it was positive and my guess would be that you have to look to those two quarters more or less in combination. We come from a situation that in the first quarter of 2010 we still had negative growth in buildings of about 14%, so we recovered pretty rapidly. We’re now at a level of around zero I would say, one quarter can be a bit up, one quarter can be a bit down but don’t look too much I think to those developments in any specific quarter. I think the trend in buildings has definitely been up. We come from close to -15% and we are now close to zero and that’s I think best shown by that graph that Renier presented. What is the building business going to do going forward? I think the positive developments that we have seen on the private sector side will continue, so the strong development that RTKL has shown is expected to continue especially in Asia, but we will also have an impact on the public sector side which will offset part of that positive development. What on balance the outcome will be is I think at this point in time difficult to predict. Then you
talk about the situation in the US, the US government. We have an expert here in the room, Doug Owen, the Chief Technology Officer from Malcolm Pirnie. Can you say a few words about what’s going on in the US public sector market Doug on the water side?

Doug Owen: I certainly won’t profess an expertise in legislative action in the United States, but overall the pressure that I see that’s coming from the legislature and those kind of things, it’s kind of a natural tighten your belts, look for programmes that are effective and ineffective and let’s slot in and see where we can make some progress. That’s a relatively healthy process. Most of the federal funding that comes from major projects that Malcolm Pirnie is engaged in in the water sector is through the utilities. A lot of the funding from the government goes to smaller utility populations, less than 50,000, something like that which isn’t a big portion of our market. So overall we’re going to be continuing to look at the support that utilities need to provide on their funding side which comes through ratepayers.

Harrie Noy: We did not pre-discuss this! This is confirming I think what I’ve mentioned before. The water market is relatively protected because of utility care. It’s not financed out of the regular tax payments. It’s financed out of special contributions that people make and that gives these markets quite a bit of protection I would say. If you look to the recent order intake in Malcolm Pirnie focused on the United States it has been pretty positive. I think last week we announced a $43 million contract, a really big contract where Malcolm Pirnie is in the lead and that certainly is going to help this year as well.

Philip Scholte: A short follow-up on that, could you break down the water business between water infra and waste water treatment because I guess the infra part is paid by government, the waste water is more like rate base. Is that one way to look at it?

Harrie Noy: That’s partly true. Of course we talk about water management and water treatment. In almost all countries water treatment is considered to be a utility, you pay a special contribution for it. Water management is more different between the different countries, but for example in the Netherlands a large part of water management is financed by the local water boards based on special contributions and so on which is protected. Some of the work that we do on water
management is also for governments. Water management is definitely more impacted by government budgets than let’s say a typical water treatment type of activities. I don’t know exactly the difference but I would guess that the difference is probably 70:30 or something like that, so 70% of our water business, maybe even a bit more, 70-75% is probably water treatment and the remainder is water management. This is more based on feel than based on figures because we have to look into the details but we can do that after the meeting.

Questioner: Can you please give us the net revenue figures per division? So at the earliest stage given the organic growth targets per division, do you think that any of the divisions has a chance to reach this mid-term organic growth target already in 2011 and environment, in the fourth quarter you started some projects with a lot of subcontracting creating a very large difference in organic revenue growth. What’s the lead time for these projects? Then regarding the tax rate, after the third quarter you said that you expected similar tax rates as in 2009 including similar tax benefits as in 2009 but in fact the tax rate was only 31% in 2010. Can you explain the difference and do you expect another positive one-off on option costs in 2011? On water you said that you have to look at the two quarters’ business but still in water it has been, you said that it has been relatively stable but this is not visible in the slides, slide 8, there’s still a downward trend on the second quarter so do you expect an improvement there?

Harrie Noy: You take the one on the organic growth Renier, the first one.

Renier Vree: We do not disclose net revenues for business lines. It will be in the annual report for the total year. That’s a little bit detailed but if you look to the growth figures you see them actually in this graph...

Questioner: There have been some shifts, water especially. It makes it difficult to calculate the net revenues per cluster. For two clusters it’s possible because you report the margin impact from the carbon credits and the project losses.

Harrie Noy: We will disclose the net revenue figures per business line in the annual report. I don’t have the figures available right now but they will be disclosed in the annual report, both per
geography, for each of the four geographies and it will be disclosed for each of the business lines, both gross and net revenue. That brings me to the next question, the growth and how does the growth relate to the targets that we have disclosed for each of the business lines. It depends a little bit on the perspective that you take. Let’s say in general the response that we got when we disclosed the organic growth target after the third quarter was that we were being perceived as being ambitious with our organic growth target given what’s going on and given the fact that we tend to be in a late cyclical business. If you look to what happened in the fourth quarter and of course one quarter does not make a summer, not a spring, but if you look to the fourth quarter with the 5% organic growth we have touched the range that we have given for the full period. So at least you could say that the growth target that we have going forward is not unrealistic given the fact that even 2010 fourth quarter we were able to touch upon let’s say the low end of that range. The difficulty is that we have these counterbalancing developments in the different market segments because there’s on one hand the positive impact on the private sector side and there is this uncertainty with respect to government spending and how that is going to balance for each of the business lines in itself is difficult to predict. Environment, you had a question with respect to lead time where you refer to the amounts of subcontracting. What happened in environment, you have seen that in the figures, what happened in environment is that these large remediation projects kicked off in the fourth quarter and that increased the amount of subcontracting substantially, so on a gross revenue basis the growth in the fourth quarter environment has been substantial, substantial growth in the fourth quarter. That compensated a bit the negative development in gross revenue on the infrastructure side because infrastructure on net revenue we did well but on the gross revenue side we had the impact in Brazil where we had less subcontracting and we had the impact in the Netherlands where we had the winter which came in earlier on. So on balance gross and net revenue were quite imbalanced, but we had quite some differences between the different business lines. With respect to your question on lead times, I don’t know exactly what you meant with the lead times?

Questioner: You said these projects kicked off in the fourth quarter but for how long will these projects run?
Harrie Noy: These projects will run at least the coming quarters. Whether they will have the same type of impact on the difference between gross and net revenue as we have seen in the fourth quarter I can’t say, but these projects are going to continue over a couple of quarters. These projects are not immediately finished because we are really talking about big projects. Tax rate Renier.

Renier Vree: Tax rate as mentioned 31.1% for the full year 2010, indeed better than we had indicated at the end of the Q3 results. The reasons are that as mentioned tax credits for option charges which is a complicated calculation but as long as share price goes up you can take a tax credit for the potential costs related to that and the other part is that the financing structure in the last quarter, a number of topics we had ongoing there came to a conclusion which turned out almost without exception in a positive way, so we were in fact ourselves positively surprised by that. Based on our analysis of the tax rate for 2010 we think that’s also the rate we can expect for the foreseeable or near future to have in our numbers.

Jan Muller: Jan Muller from ING in Amsterdam. I have three questions, the first one is about environmental services. You have a big difference in the fourth quarter between let me say the organic revenue growth, gross revenues and net revenues, I think the difference is about [off microphone]. That’s my first question. With regard to the growth of the order portfolio can you give a breakdown in the order portfolio of this acquired currency effect of this organic growth of the order portfolio? My third question is about Poland. First of all you say “Ok, we have won a contract. There’s financing”. Fine. But at the same time you said we had some contracts where the financing has been halted so the work is now postponed for some time or indefinitely, so it’s for me an unclear situation especially given the fact that most roads, the big ones in Poland are being financed by the European Union in my view, so can you elaborate somewhat on that situation in Poland?

Harrie Noy: First of all your question with respect to the difference between gross and net revenue in the fourth quarter, you are absolutely right that the difference is huge. It’s about 15 percentage points so organic growth in the fourth quarter, net revenue level was about 6% and on gross revenue it was about 21%, 22%, so really a big difference and insurance did not play a
major role in the difference, so it was largely subcontracting because those projects kicked off. Then your question about the backlog, the difference between currencies, the impact of acquisitions and organic. The figures that we mentioned to you are organic growth figures, so these figures are cleaned for acquisitions and for currencies. So when we talk about a 9% increase in the backlog then we talk about an organic increase of the backlog, so excluding the impact of currencies and excluding the impact of acquisitions, so thank you for giving me an opportunity to clarify this issue. Then with respect to Poland, Friedrich, can you say a few words about it?

Friedrich Schneider: In Poland we have two effects it has in the course of 2010. On the one hand we are working on two lots of the Warsaw ring road and we’ve received order from the government to stop the works. You’re perfectly right, those projects are financed by the government and by the EU, however there was a dispute about the environmental impact of those roads and that was under dispute and therefore those projects were stopped on top of the financing problem and as a matter of a fact we don’t really know whether this is just a reason that the Polish government is using in order to stop those projects. At the same time we received a major job from a company called Kapsch. Kapsch is an Austrian intelligent traffic management company and we are basically installing or supervising the instalment and the design of about 400 traffic and toll collection bridges around the highway system of Poland. That is the first phase and we are very hopeful that this is going to continue in the years to come. That is business that is only coming in 2011, so that project is starting up right now and will carry us through 2011 and in between we basically had a hole so to speak. We had a stop from the Warsaw ring road and the Kapsch project had not yet caught on.

Harrie Noy: Keep in mind that European funding is only part of the funding of those projects. Governments have to fund part by themselves. Co-funding in all these cases.

Jan Muller: But given the importance of the roads let me say I think from the North to the South and East to the West I think in Poland they cannot postpone it indefinitely.
Harrie Noy: No, not indefinitely, that’s absolutely true so we were even more surprised than you were I think about these developments. At a certain point in time this is going to pick up again. What we see on the other side on the real side besides the project that Friedrich already mentioned, the Kapsch project, we see also that on the real side the developers continue quite favourably. There’s still room for a few questions.

Dieter Furniere: A couple of questions again related to Poland because I understood also that at the end of January the Polish government signed some new budgets with especially cuts in 2011, 2012 and also 2013 and then I think to spend around 10 billion Polish zloty from onwards flat and I think the budget for 2011 was around 30, 35, so that seems severe cuts. I have it also from one of our Polish analysts covering construction, so maybe you could elaborate on that and also give the mix on the split of activities you have in Poland, so what is the exposure to road, what can you do in rail and maybe also in energy, do you have exposure in energy projects in Poland? Second question on Brazil, the shareholder you have there, could you provide a background on them? Also that has a feeling on how to follow you in your growth strategies there and maybe the sale of the energy project, it may be also needed to have the funds into Arcadis Logos to be able to finance new potential acquisitions in that region. The third question is the speed of PPP coming through. There’s a lot of stock in the market, I think everybody has big hope and aspiration for PPP but how firm do you see it and how fast do you expect this to come, what regions? I know France is very active, the Netherlands you are active in some projects but what’s the deal in other European countries? Thank you.

Harrie Noy: Friedrich, could you take Poland?

Friedrich Schneider: To start with top to bottom on the energy side we are not very active at all. We do a little bit of project management in Poland but that is negligible. Our environmental business is about 15-20% of our revenues in Poland and the rest is really focusing on transportation. That is on the one hand highways and roads and on the other hand rail. I think we’re the number one in rail in the market. We’re also the number one in roads in the market for sure whereas I would expect about 35-40% of the business being in rail in 2011 and the
remainder in roads. We are currently cutting down our capacity in roads, obviously we are trying to shift them over into rail but there’s a certain limitation to that.

Harrie Noy: Then Brazil, who is our co-shareholder in Brazil? Basically management. We have about 20-25 people in Brazil which are our partners through holdings, it’s basically some of the founders who are still there but mostly very senior people that are actively involved in the business. I’ve never looked into their pockets to be honest but I think that’s because also in the past we have invested quite a bit of money in Brazil and that has never been an issue. Do we need the money? That depends on the perspective that you choose. I would say that we’re definitely going to use the proceeds from the divestments to invest in other business opportunities that we see in Brazil but we might have invested differently if we wouldn’t have those proceeds available. That’s why I think we are definitely not divesting in order to, we are divesting to get more focus in our portfolio especially from a management perspective because what we see is that it’s difficult on the one hand to expand aggressively your consultancy and engineering business and on the other hand manage those investment projects properly where you have to focus also on the risks, so that’s the main reason why we make this move. Then the public-private partnerships, how firm do we see it? I expect there to be a strong trend over the coming five years. You mentioned already France where there is a strong tradition in public-private partnerships and the project that we are involved in is a major investment. We’re not talking about hundreds of millions, we’re talking about billions of euros of investments, I think 6 or 7 or something like that in that one project and I think that the strength of governments looking for the private sector to finance infrastructure projects is going to be a trend in other European countries as well. It’s definitely a trend in the Netherlands where for example the [Verkung] tunnel is a PPP project and the government is looking to other projects to be financed through this approach as well. Belgium you know probably better than I do but we have heard that also in Belgium the government is looking to this approach and actually the Belgian government has implemented some of those projects in Antwerp through a PPP approach.

Joost Slooten: Thank you Harrie. I’d now like to open up the call to questions please. If there’s anybody out there with questions for management, please do so now.
Operator: We have one question now from Eugene Clark from Credit Suisse. Please go ahead.

Eugene Clark: Good afternoon gentlemen, just a few questions if I may. First of all I think at the beginning of the year some members of Malcolm Pirnie’s management sold a portion of their shares. Can you update us on what percentage of the shares in Arcadis are still being held by Malcolm Pirnie’s management and what lock-up agreement they have for the remainder? The second question is if I look at your return on investment capital for your CFROI then obviously due to the acquisition it has come under a bit of pressure. Considering the overall economic environment when would you think you will be able to improve your return rate going forward in terms of RICs or CFROIs? Then thirdly a question on the financial expenses, you mentioned that these obviously increased due to the acquisition of Malcolm Pirnie. The dollar moved against the euro and also Brazilian rates. What if any hedging policy do you have and can you give us some indication of guidance as to the financial expenses item that you expect for 2011 based on existing or current exchange rates?

Harrie Noy: Thank you. First of all about the Malcolm Pirnie shareholders, when we did the merger with Malcolm Pirnie we issued a bit less than 10% of the Arcadis shares to finance the Malcolm Pirnie merger. I think we issued 5.74 million shares at that point in time. In the meantime I think about 1.5 million of those shares have been sold which means that the Malcolm Pirnie shareholders still own a bit over 4 million shares in Arcadis. The lock-up period for those shares has lapsed in the meantime, the lock-up period was 18 months. It was an incentivised lock-up as you know so people did not have the obligation to maintain their shares because they were incentivised in the sense that their options would lapse if they would sell their shares within the 18 month period. So there’s no lock-up restriction whatsoever anymore on those shares at this point in time. The return on capital invested Renier.

Renier Vree: The question there was about the pressure we see that management would improve. I think when you look at the way it’s being calculated it all depends on the performance of course and given our ambition to keep margin about 10% and also to do acquisitions that yield return on 15%, that’s clearly the level that we want to go to also in the near future. Also coming to the
question on the hedging on financing charges, we do not hedge the US dollar exposure on our interest costs, that’s a decision on purpose because the acquisitions were also related to our US dollar based entity that yielded returns in dollars. We do hedge part of our interest costs so we have hedged to an extent the variable part of our interest charges to make them fixed.

Eugene Clark: If I can just ask a follow-up question, so what does that mean for guidance on finance expenses this year as I said assuming current interest rates? Then secondly just going back to buildings, clearly 2010 was a difficult year but of the four divisions you appear to be most significantly off vis-à-vis your own target for the next 2-3 years. What’s a reasonable timeframe in your view for Arcadis to meet its targets on the building site?

Renier Vree: Financing expenses, basically I think the costs we have seen in Q4 should in principle be quite logical also to see that level going forward, assuming that the US dollar stays at the current rate. If the US dollar moves a large part of the financing charges would move with the US dollar.

Harrie Noy: Your question about buildings, that’s a bit a question about looking into the future. I would say that commercial property markets have stabilised in the Western world when I talk about Europe and the United States. We see some signs of picking up even in the commercial property market but I think it will take until 2012 until the commercial property market both in the United States and in Europe will really pick up. We see some improvements this year but before the commercial property market really picks up this will probably be 2012. Where we are pretty positive is about the developments in the Far East and in the Middle East, the Middle East in certain pockets, for example in Saudi Arabia we are involved in hospital projects. That business is developing quite well and in Asia and especially in China we are not only involved in healthcare projects, we do also a lot of commercial projects so in that part of the world the commercial projects are driving our business. What we have seen on the public sector side that it’s a bit dependent on the level of public spending. In Germany our buildings business is developing quite well. As Renier mentioned we benefited from large projects like for example the investments in the new airport facilities in the vicinity of Berlin, but on the other hand for example in the UK the commercial market has stabilised but on the government side we are still a bit cautious, so when are we going to achieve our target I can’t predict but I think that the
situation in buildings has definitely improved compared to the situation where we come from even only half a year ago.

Eugene Clark: Thank you very much.

Harrie Noy: You’re welcome. Then I propose that we finish this Q&A session. Now I would like to invite Doug Owen to take the floor and to present the developments in relation to sustainability and climate change particularly in relation to the water segment. Doug is our Chief Technology Officer. He joined Arcadis when Malcolm Pirnie joined Arcadis and he is really an expert in new developments in the water market and he can certainly give a much better picture on what’s going on in that market than I ever will be able to do. Doug, with this I give the floor to you. I raised expectations a bit.

Doug Owen: Thank you Harrie and for all of you for being here and for those on the phone as well.

This is going to be a bit of a longer view on what we see happening in the water sector over time particularly around the concepts of sustainability and climate change. As we move to the next slide we have the Brundtland Commission, our common future, many of us are familiar, we’ve seen this definition in the past and the issue here though is how does this translate practically to what is happening in a business cycle and what we’re doing in the water sector and that’s what I’m going to talk about a little bit. I have three segments in my presentation, one is an example of drivers, the second is some programme and project examples, and then I’m going to close with a few thoughts.

So let me start with the drivers. I have a sequence of three slides, let me explain what this first one looks like. For those of you on the phone it’s the first one entitled ‘Development of World Cities 1950’. The cities with the red bars are the cities that had a population of greater than 5 million people in 1950 and the size of those bars is the relative magnitude of the population in those cities. What I want us to focus on is just this overall portrayal while I toggle through the next two slides. The next year is going to be 2000 and the year after that is going to be 2015. So here’s 1950, here’s 2000, there’s 2015. It shows an extraordinary amount of urbanisation particularly noticeable in Asia and the Indian subcontinent and at this point in time we now have
more than 50% of the population of the world living in urban areas and this has a profound effect on what we need relative to water, where it is and how it’s distributed. So population is a major driver.

The second thing that’s happening at least in the United States as we move to the next slide is that land development is actually increasing faster than population. So we have population here in the black and you can see the much faster rate of growth in the land development and what that means is we have less pervious areas, water, rainfall that moves more quickly to other portions and so we have to rethink our entire infrastructure for capturing water and getting water to where it needs to go.

As we move to the next slide which is also US centric here about projected changes in population and at the bottom here is the population in 2000 and the projected population in 2030 and as you get more green in this area you have a higher percentage of increase of population in those states. What this is showing is a move to the coast but also in general moving to locations that have less water naturally as opposed to more water. A move out of the Great Lakes, a move out of the area where there’s large groundwater basins in the central part of the country and off into the south west for example. So not only are we in a position that we’re challenged with how we have to manage water, we have people moving and populations increasing in places that have less natural water to start with.

The second piece, major driver is nutrients, nitrogen, phosphorous. Nitrogen is impairing coastal and inland waterways, impairing 2/3 of those in the United States and it is not just a US issue. As we move to the slide that’s titled ‘Excess Nutrients are a Global Concern’, you can see the locations in the red there are locations where some portion of time during the course of the year there’s no dissolved oxygen in the receiving streams there which means challenges to fish populations, ecosystem balances. In the last 40 years the number of identified areas that have those conditions of low dissolved oxygen have gone from 50 to 400 and you can see them beginning to be expressed in the major growth areas in Asia and the Indian subcontinent.
The second piece of this is that we have decoupled agricultural activities and we now have concentrated farm feed lots for animals in one place and maybe up to 1,000km away is where we do our agriculture. What that means is our natural fertilisers are not in the location where we need them, so what we do is we mine rock phosphate and we’re running out is the bottom line. There’s only so much that’s available and we’re starting to move down the other side and this is a major issue for the global supply and for food. What this means is that we have to start thinking about natural phosphorous and phosphorous at waste water treatment plants, humans produce phosphorous, we excrete it, it gets collected. We have to start not only removing that phosphorous from the standpoint that we don’t want to impair water source with algae growth but we have to reclaim it as fertilisers and those are the kinds of things that are going on right now.

I’m going to skip this next slide because I just said that and I’m going to move to global temperature change. Many of you have seen this kind of graphic. It’s a graphic that just shows from 1970 to 2004 the relative change in temperature in degrees centigrade, as you get more red you have a higher degree of change in temperature. While this is significant and critical in its own right what sometimes is missed is the change in precipitation that accompanies this, where water is falling and how those patterns are changing.

So as an example I want to go on the next slide to Western Australia and this is a graph over almost 100 years showing precipitation in the red on an annual basis and there’s kind of three zones of averages here. There’s an average up until about the early 1970s, there’s an average into the late 1990s and then there’s this current average and this decrease over time. The point being here is this might naturally, we might say “Oh well, our water reservoirs or our bodies to contain this have maybe half of what they used to have”. What actually happens because of evapo-transpiration and groundwater exchange is that they run dry which is exactly what happens in Western Australia. When it got to this point reservoirs and streams have run dry and they have been forced to go to an entire different way of developing their water supply which in their case was desalination.
Now on the next slide if you look at those global precipitations that are predicted and you look at Western Australia where more red means a greater reduction in precipitation over time, you see it occurring both in the winter months at the top and the summer months in the bottom if you’re in the northern hemisphere, you see these changes being expressed in a lot of places globally and of course we’re already seeing this in the South West United States. I would say in the South West United States we’re about 10-15 years behind where Western Australia is and remember that’s one of the places that everybody is moving.

Drought frequency is also projected to increase in Europe. These are two models, separate from what you saw before both showing the same kinds of trends – that is an increase in drought frequency as you get to more red and more black it means drought periods become more frequent but at the same time we have sea level rise that’s increasing flooding in other parts of the same area, so we have less fresh water, more saline water, a whole shift in how we have to manage water overall and of course water management as you heard Harrie speak about is a very key element of how we take care of this that Arcadis has a lot of experience with.

I want to close this concept with how it’s affecting the water cycle. You start on the left up in the corner, water resource and water quality challenges. It requires us to use new types of technologies and solutions that are energy intensive. That means we use more energy, produce more greenhouse gases, we keep ourselves in this loop and we really need innovative ways to get out of this cycle and that’s something that Malcolm Pirnie as part of Arcadis now is actively involved in.

So let’s talk about a few programmes and project examples. I’m not going to speak to each of these. These are six major areas that already our clients are asking for services around these and we are actively engaged. I’m only going to talk about the first two which have to do with energy efficiency and renewable energy and sustainable water. Water and energy are linked very closely. It takes water to make energy such as hydropower and cooling for nuclear reactors and then it takes energy to produce and deliver water, so they go hand in hand. So how much energy does the water industry use? It’s pretty significant globally and if you look at California there at 12-19% which is very high peak it’s because California imports their water from a lot of
locations and pumps it over mountains. So consequently in order to do that and manage your water in that way you use a lot of electricity. So it’s a major component of the operating costs for our clients and they need a lot of energy because water is heavy. So energy is a major focus for water clients right now. Energy management, we do a considerable amount of services associated with audits, how can they reduce their overall energy consumption. Digest biogas is a really big issue, a really big opportunity for our clients because we have waste water coming in the front door. We have a lot of solids associated with that and if we digest them we produce methane gas and we can clean up that methane gas and we can use it as an energy source overall.

I talked about the problems with algae and there are problems with algae and nutrient growth, but using the nutrients in the waste water you can also produce algae that you can then use to create biofuels and that kind of activity and research is going on right now as well.

Finally renewable energy. When I talked about Perth, Australia, on the western side of Australia having to put de-sal in because basically their fresh water sources had run dry, that plant is run entirely by wind energy and so for these higher energy technologies that are needed to clean up the water there’s a huge interest in using renewable energy. We’re just doing a ribbon cutting ceremony on the largest solar facility for a waste water plant next week. Notably a treatment plant in upstate New York which has a climate very similar to where we are right now in Amsterdam, maybe a little bit colder went off the grid a few days this year. From the power that they generated, from the gas that they produced, from the solids they had as well as other solids they imported from industry and were able to become self-sufficient. These are the kinds of things that clients are looking for and that we’re providing.

On the water side there’s a whole suite of things, I’m only going to talk about the first two. The biggest issue now is in the full water cycle, use water more than once and often when I go to very arid areas, when I talk to utility commissioners I say the only water source you can be absolutely guaranteed of is the one that your population is going to produce and that’s the waste water coming down. But there are a lot of opportunities for that. This nuclear power plant that I talked about earlier in Arizona, Paulo Verde nuclear power plant uses water from the
91st Avenue waste water treatment plant that we designed completely, that’s it. When it’s done it takes that water and it discharges it through an ecosystem habitat and recharges the ground water.

Similarly on a storm water side the issue is, we have been historically taking that and moving it as quickly to the oceans as possible but in areas that haven’t historically had high rainfall such as – and it has been reducing – such as the Eastern side of Australia and then get enormous rainfall at one time, the question is how do we instead of overburdening that kind of infrastructure, how do we capture that water and be able to store it underground. To the point that you made earlier is most of that water that came down ended up running off because the ground was hard and baked. They did capture some of it but they really lost a lot of it because the infrastructure wasn’t prepared for that long drought season and that incredible downfall at the same time.

So our clients’ role particularly on the waste water side is changing. Historically they have been about protecting public health, moving waste water out of urban areas and treating it so that our bays and estuaries and rivers are clean. Where we’re really headed now are they have a resource, they have a water resource coming in the front door that can be re-used. They have phosphorous and nitrogen nutrients that could be reclaimed and they can generate energy. So they’re really thinking more as a business as opposed to somebody who’s just on the end of pipe having to deal with discharging things.

So in order to be able to do this properly and really have a sustainable future there’s a lot of paradigms that are going to need to change. I’m only going to talk about the second one here which requires inter-agency alliances and agreements. Some of the major issues about our utilities is that a drinking water utility is separate from a waste water utility is separate from a storm water utility and they each have their own waste to optimise their agencies. It’s very hard to completely look at the full water cycle when you have three unique agencies. So what the management division within the water division in the US is doing is helping agencies think about how these agreements work and a classic example of the success of that is Singapore which was receiving more than 50% of their water from another country, was worried about water security
and figured out how to bring the agencies together so that they could re-use water in a holistic way.

One last example before I go to closing, concepts which is Coquina Coast. This is in the North East coast of Florida, a desalination water supply. It’s interesting that Florida does get some rainfall. A lot of it moves quickly to the oceans, a lot of it recharges wetlands and you can’t access it, so they’re actually in that growth area still looking at de-sal. What was so challenging about this particular project is there were 12 different agencies that were interested in the water. So this was the concept we said “If we’re really going to truly create a sustainable water supply for this part of the country, we’ve got to get this group together and have them help define for us what will be sustainable not just in terms of perhaps saving some energy at the plant or minimising how much chemicals we use but a sustainable governance structure, a sustainable financial rate structure, how do we interact with the populous?” That’s what we did, so we brought them all together at the very beginning of the project before we designed anything and started with a map and said let’s map the system. On the next figure I’m going to show you something, you don’t need to read any of it. I’m just going to make a point about what this system looks like and that is what’s inside the dashed line is the actual project or the elements of the project that we had to design. What’s outside the dashed line is everything that impacts the success of that project over which the agency has little control. We’ve worked through all those elements with all those stakeholders and developed criteria that would allow this project inside the dashed lines to be successful and used those sustainability criteria in making all our decisions about how we moved forward with the project.

So let me give you some closing thoughts on this and this is the bottom line from the Coquina project is that we need to consider sustainability at the beginning of a project. If you look at the top graph it shows the blue there, the blue continual line is what it costs to improve the sustainability of a project as you get further into the project maturity. Often we have clients who come to us and say “We’re getting ready to build a project” or “We’re actually going to construct it right now, how can we make it sustainable”. It’s already designed. There are a few things you can do, you can re-use some materials, you can do some other things but it costs a lot of money and your impact is relatively small. So what we’ve begun to do at this point is on the
front end of every project we sit down with clients and we say “Let’s talk about how we define success and how we’re going to use criteria in a little different way such that your project can be sustainable in the long haul”. We spoke about this with Alexandria Sanitation Authority, this is in Washington D.C. area which was right about ready to release their capital improvements programme and even though they were on that verge, they pulled back and they said “We want you with Malcolm Pirnie with Arcadis to come in, talk to us about sustainability criteria, help us evaluate the projects which we have on here and that will allow us to make decisions about what we need to do. They re-prioritised their entire CIP based on that. They actually went back and had some projects redesigned but over the long haul it’s going to serve them well and their comment to us when they came back is “We just really wish you were here at the beginning of the projects because this would have cost a lot less money for us to do and we would have been able to put this ethic in all the way through our projects”.

Let me take a final step back and talk about our position in society. I’ve thought a lot about economic development and infrastructure and its relationship to the quality of life and a century ago engineers and scientists were statesmen who worked with all of you to help create an environment for economic growth and development. Somewhere in there we lost our way a little bit, we became technicians instead of really helping thinking about planning and we’re at a crossroads right now. We can continue to support the current production consumption model or we can really apply new solutions and quite frankly we don’t have the resources for the current consumption production model based on the type of growth and the population dynamics that I showed early on. It isn’t just that we have to build new infrastructure in order to meet economic desires of emerging economies, we also have to take care of the infrastructure we have and interestingly New York City as an example is coming to grips with this in a big way. The Sunday New York Times last year in August 2009 was this “Spit, glue and maybe even some chewing gum” and really talked about the fact that we need to rehabilitate our infrastructure in a very major way. We have relied on it for a long time and even under-invested in it for a long time and if we’re going to continue to support New York City and the rest of the nation and the economy we’re going to have to do that in a different way and we’re going to have to invest and make it happen.
The challenge and I like to think of it as an opportunity is enormous. Fusal & Hamilton did this study in 2007 which showed $40 trillion of cumulative spending required in water, power and transportation from between 2005 and 2030 in those areas that you see right there. So we have an enormous platform on which we need to operate and we can’t continue to do this kind of work and this kind of development using the same kind of thinking we used 50-100 years ago because we simply don’t have the resources.

I will close with a quote by Malcolm Pirnie Senior who is the founder of the company. In 1948 he was awarded the Hoover Medal and the Hoover Medal is given once a year to an engineer who has provided great and selfless services in the interests of humanity and in his talk in 1948 he had this quote: “Never has the opportunity been greater for engineers to minister to the needs of humanity”. We were coming out of World War II. We needed to rebuild much of the infrastructure around the globe and we did. We did it together and we were successful and we created a great period of prosperity. I would offer that we could say this exact same thing right now only we’re going to need to do it a little differently than Mr. Pirnie did it 60 years ago, but the opportunity is still there and I believe based on what you’ve heard from Harrie and what you know about this organisation Arcadis that we’re positioned to do that.

Joost Slooten: Thank you Doug. We’ll have time for one or two questions.

Questioner: [Off microphone]...what are they going to say to you?

Doug Owen: I had a different closing slide before that I took off but it was interesting. I was standing on the steps of the capital about six months ago and they were coming out of a climate change forum there and the Senator for Illinois was talking to the Senator from Arizona at the time and they had just kind of heard all this and they were looking at each other, I was talking to somebody else but just a few steps down and his comment was “This is really complicated. We need some help to figure this out”. I think overall that the understanding for infrastructure investment is there. We’re going through this peak period which is appropriate about how are we going to tighten our belts and how are we going to manage things, but economic cycles come and go and this is a long term issue. Infrastructure, I was also there in Washington D.C.
last week and a 60 inch diameter, a 5 foot diameter pipe broke and floated cars down one of the major causeways there. That on the front page gives Congress a lot of pause about where they're investing right now. So I think the long term will is there once they kind of move through this sequence of how do we get a grip on the debt.

Joost Slooten: Any other questions? If not then I’ll hand the mike back to Harrie Noy to close this conference.

Harrie Noy: Thank you Joost. Thank you Doug for this wonderful presentation. I think the presentation showed that we still have many opportunities both in the United States but also outside the United States. It also shows that the market is changing. We’re not just talking about engineering services that our clients ask us to provide, it’s much more high level type of consultancy services that are needed in order to bring all those different interests together and I think together with Malcolm Pirnie we are very well positioned to help our clients in that respect.

Thank you very much for your presentation. I would like to thank everybody for attending this analyst meeting and conference call and hope to speak to you soon and at least at the next quarter when we present the first quarter results of 2011. Thank you all for attending this call.