Corporate Participants

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Conference Call Participants

As per participants list

Presentation

Operator  
Thank you for standing by and welcome to the Arcadis Q1 2013 Results call. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question, you will need to press *2 on your telephone keypad. I must advise you that the conference is being recorded today, Tuesday 23rd April 2013. I would now like to hand the conference over to your first speaker today, Mr Slooten. Please go ahead sir.

Joost Slooten – Arcadis  
Thank you, Dana. My name is Joost Slooten. I am the Director of Investor Relations for Arcadis. I would like to welcome you to this Arcadis conference call. We are here to discuss the Company’s announcements of the Q1 Results 2013 which were released this morning. With us on the call today are Neil McArthur, Chief Executive Officer, and Renier Vree, Chief Financial Officer. The Powerpoint presentation that is used is available through the investor section of the Arcadis website, for which the address is [www.arcadis.com/investors](http://www.arcadis.com/investors).
Just a few words about procedures before we start. We will begin with formal remarks and we call your attention to the fact that in today’s session management may reiterate forward-looking statements which were made in the press release. We would like to call your attention to the risks related to these statements, which are more fully described in the press release and on the Company’s website.

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

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**Neil McArthur – Arcadis**

Thank you, Joost. I now turn to page 3 of the presentation document that Joost referred to, the agenda page. Welcome everybody. I just wanted to show that on page 3, before we move on, a point to note. This is a tower designed by RTKL in China in a city called Wuxi close to Shanghai and the 382 metres is noteworthy for Europeans on the call because it is actually taller than the tallest building, The Shard, which was just completed in London as Europe’s tallest building, by about 40 metres. We are very proud to be associated with the architectural design of that building, which will be completed in construction in 2014. The mixed use retail development at the bottom of the tower will be completed in 2013.

So now turning to page 4, Arcadis improved quarterly operating margin, the first point to make is double digit growth in emerging markets is partly compensating for tougher market conditions that we are experiencing in Continental Europe. Operating margin improves again to 9.2%, reflecting robust profitability in the emerging markets and margin improvement at EC Harris. Our net income from operations is up 8%, reflecting growth of revenues and margin. In Q1 we successfully completed two acquisitions, SENES in Canada and Geohidrologia in Chile. We confirm our 2013 outlook of further increase of revenues and profit barring unforeseen circumstances.

If we now turn to page 5, strategic progress continues. We are benefiting from our shift to emerging markets, first of all, with a merger with EC Harris. In Q1 we were able to capture major synergy with the project management for the Kingdom Tower project in Jeddah, Saudi Arabia, which will become the world’s tallest building. We are also seeing Built Asset Consultancy having a pick-up in the Netherlands and in the US and we are happy to report that globally now we see Built Asset Consultancy with each of the operating entities that we have around the world. Our merger with Langdon & Seah from Asia, very, very happy with where we are. The organic growth is again above 10% and we continue to experience high margins.
A little bit more about the two acquisitions in the quarter. Geohidrologia is a hydrological environmental addition in Chile with 55 employees and that clearly strengthens our position in mining in Chile. SENES is an environmental services firm in Canada and India with 250 employees and that improves our position to serve our multinational clients in both of those geographies and we have additional service offerings from SENES that will allow us to better serve our multinational clients globally.

The adjustment in our operating model that we communicated at the annual results for 2012 proves timely and we will go on and talk a little more about that in a minute. Clearly M&A remains on the agenda, the focus being emerging markets and other selected geographies.

If I now turn to page 6, Continental Europe, our cost savings are in line with the plan that we announced with our annual results in February and the initiatives are in place to deliver annual cost savings of €25 million plus to enable us to realise 10% operating margin in Q4 2014. What you see here on this page is that the good progress that we have made in Q1, the chart at the bottom of the page shows the cost savings year-to-date of real cost out delivered into the P&L of €1.9 million in Q1, which has an annualised run rate of €8.6 million. Then you can see on the right-hand side the chart at the bottom that we have consumed now €2.6 million of the €20 million restructuring charges that we communicated in February. Now this shift is timely. We have got these margin initiatives underway and now we are focusing also on growth initiatives. We talked about the areas of excellence in our previous discussion. We are now focusing on growing in the environmental remediation area, bring Built Asset Consultancy to clients across Europe, creating skill that we talked about in our ports and waterways business and also lenders and investors across Europe and we are very happy with the progress to date.

Turning now to page 7, we wanted to share with you some early examples of the collaboration in wins that we have had on a more Pan-European basis. Top left is a picture of a design for a navigational complex in Belgium that was completed with cooperation between the Netherlands and Belgium. Bottom left is the global capital expenditure delivery programme for Deutsche Bank which was involving the Netherlands, Germany, Belgium and the UK. Top middle, the Qatar National Bank, looking at assessments of their asset investments in France, involved collaboration between the UK and France. Then centre, a large oil and gas multinational client for remediation services, which involved collaboration between the UK and Germany. Then bottom right, renovation and newbuild for a hospital, which involved again the Netherlands and Belgium. So we are actually seeing very concrete examples of where we are creating and bringing the best of Arcadis on a Pan-European basis to clients to win work and deliver superior services.
If we now turn to page 8, we are demonstrating strong organic growth in mergers, which has led to a doubling of revenue in emerging markets over the last two years so that by Q1 gross revenue in emerging markets is now 23% of our portfolio and growing at 63%. Then you can see the continuing importance of North America in growth in the portfolio, the UK clearly driven by the merger between EC Harris and Arcadis UK and you can see a somewhat decline in our Continental European business.

Turning to page 9, emerging markets are now our largest region by headcount. At the end of March 2013 emerging markets now 37% of our headcount, with UK and Continental Europe being 35%, with North America the remaining 28%.

With that, I would like to hand over to Renier Vree, our CFO, who will take you through the Q1 results in some more detail and I will be back for the outlook. Renier.

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**Renier Vree – Arcadis**

Thank you, Neil. I am now on page 11, where you see our performance in Q1. You will see there all our key metrics that deal with revenues, EBITDA and I think earnings per share are all up compared with Q1 2012. You will see the number in the press release.

Let me go to the next page number 12. There you see the graphical overview of the organic growth of the business lines in Q1 and preceding quarters. The impact of the decline in Continental Europe has been significant. It was a decline of 10% on that revenues, meaning that the rest of Arcadis was growing on average 3%.

Let me zoom in on the individual business lines. The red one for infrastructure was helped by growth in emerging markets, particularly in Brazil but also in the US PMCM while Continental Europe drove revenues down.

In water, there was growth visible in the UK and also in the industry side of the US and work we won for the Sandy related projects. On the other hand, municipalities were slower in the US while in the Netherlands we did see some growth, which was offset again by declines in other parts of Europe.

For the environmental business lines, there was a decline with the federal work and also there was an impact here because of the long and severe winter that not just happened in Europe.
Also in the US there was a severe winter which impacted the work we could do in the fields related to remediation and construction work. UK also had a negative growth in environment. On the other hand, Brazil and France, helped by growth in multinational clients, were positive.

The buildings business line was helped by growth at EC Harris while in the US we showed a decline for healthcare and also a decline for other public works. In Continental Europe the market was also in the negative while we saw in the Netherlands that the market starts to bottom up. Overall, the split between public, private and utilities that we always provide you was equal to what we shared earlier with you at the end of Q4 2012.

Moving on to the next page, we see here the overview of the growth revenue development and net revenue development over the last years and you see there that in Q1 the growth revenues were negative while it was organically flat for the net revenues. The reason there is the significant sub-contracting we did for the Floriade in the Netherlands in Q1 last year which involved a lot of sub-contracting relating to the completion of that project. The acquisitions, both in gross and net revenues, relate to Langdon & Seah, which we acquired in April of last year, and also the other smaller acquisitions, BMG, ETEP and Geohidrologia in Chile. SENES in Canada is only included as of April 2013 when it comes to revenues as the transaction took place towards the end of March in Q1.

On the next page you see the operating EBITDA development between last year Q1 and this year, currency a slightly negative impact. The acquisitions contributed to EBITDA but organically there was a decline, contributed to by Continental Europe, while EC Harris and Langdon and Seah and the further growth of our South American business helped to drive the figures up. The restructuring charges of €3.1 million that were taken in Q1 last year related to the projects we do to reduce costs in Europe.

On the next slide you see the development of the operating margin per quarter. You see there the 9.2% that Neil mentioned for Q1 this year, 40 basis points compared to last year and it is also relevant to mention that the margin was 10.8% for Arcadis without including Continental Europe. That means 4.1% effect in the underlying margin for Continental Europe in Q1.

Moving on to page 16, you see there the overview of the Q1 results over the last five years. The difference between the net income from operations and the EBITDA mentioned before. EBITDA was up 5%. Our financing costs moved up slightly €600,000 because of the interest cost relating to acquisitions. The tax rate was 28.5% compared to 28% last year and income from associates
was a gain of €800,000 compared to a small loss in 2012, which means that net income went up more than the EBITDA went up. Net income was 8%.

On the next page 17 the cash flow is shown. Cash flow from operations was a negative of €73 million. Always we have a negative cash flow in Q1 due to the way our business model works. However, the cash flow was €20 million more negative than in the preceding year, which at first glance would maybe make you worry. However, there is significant impact here because of the bank holiday relating to the Easter weekend, which meant that cash collections that were due at the end of the month were not collected in March but only came in the first days of April and that is also the reason that days receivable outstanding went up by eight days compared to March 2012 and working capital was up. Another effect was that EC Harris has been very busy to integrate in the UK the organisation with the original Arcadis UK activities. That means that many people took new jobs. The organisation was rearranged. People moved to different offices and merged together, which also impacted the efforts taken to take care of billing and collection, which also will be corrected in Q2 so that we continue to focus on lowering our working capital.

The next page 18, the overall balance sheet and funding of the Company, our net debt was just over €400 million by the end of Q1, which includes cash payments for the acquisitions. This means that our average net debt to EBITDA was the level of 1.6, just a little bit higher than it was at the end of last year, while for Q1 the point measurement at the end of March was at 1.9, equal to where it was a year ago. Our funding didn't change compared to the prior quarter. You see there the various sources of funding we had with credit facilities and bank loans and the US private placement. There is debt coming up for renewal this quarter and we are in the final stages of renewing this.

Then I move on to the business lines. On page 20 there is an overview which shows from 2011 to 2013 our revenues have grown on average 14%. All business lines have grown over this two year period. With gross revenues, there environmental business has become the largest while for net revenues infrastructure and buildings are both at the same size for Q1.

Some more details on the business lines. First infrastructure, you see there a page with a nice example of the project we are doing in Santiago, Chile, and then the details on the business lines. I already mentioned the lower sub-contracting which drove down the organic growth revenues in infrastructure. We saw positive developments in South America, not only in the private but also in the public sector investments that are taking place, where we won work for the Olympic Park and the Olympic Village project in Rio and also with the Metro in Sao Paulo. In the US there was some growth in infrastructure related to the intelligent transport solutions while in Continental
Europe the market and our revenues went down due to the mentioned austerity situation. There, nevertheless, we won a project for a railway station design in the Netherlands for the Driebergen-Zeist location but that was insufficient to make up for declines in particularly for EC Harris and Continental Europe.

Then in water, on the next page an example of a water project we do for a car manufacturer in the Water for Industry activities. In water, we saw in the US growth in the activity for Water for Industry, which was offset by municipal declines and overall a small decline in the US. In the UK market we did see growth from the activities there for US water boards. Also in the Netherlands the market grew for water while in other countries of Continental Europe, like Belgium, France and Germany, we saw a decline. We won two water projects in Louisiana related to the Mississippi River, to divert the water and strengthen the coastal defences over there and also, further to Hurricane Sandy, which already in the last quarter brought work, there was additional emergency work coming to us and also we won a number of projects related to climate adaptation projects for our clients which brings us tens of millions of revenues.

Then on to the next page for environment. There is an example here, a picture of a project we do to help municipalities adapt to climate change and on page 26 further details on the environmental business, with the US having been in decline due to the public sector as well as declines we saw in the UK. There was also in the US impact from the winter storms as I mentioned earlier, which reduced the work that we do in the fields. In Brazil and France we saw growth in the environmental business, also because of the multinational clients that helped to grow backlog, particularly in the US but also in Continental Europe. We won work in New Jersey for a project, Superfund site related to remediation of soil and groundwater, and in Brazil there was an additional project won related to the fauna rescue and monitoring projects we do over there.

Finally the buildings business line with an example of a project we do for a hospital in the Middle East on page 28. Revenue of buildings grew 19% in gross revenues. A big contribution there came from Langdon & Seah, which by itself grew more than 10%, and then also overall the growth came from the emerging markets and the UK while in the US we saw a decline because of healthcare and public projects for architectural work but also for project and construction management. The European market declined on the Continent and some of the projects that we won were the already mentioned Kingdom Tower project in Jeddah and Saudi Arabia and also a nice project for Louis Vuitton, their new building in Hongqiao in Shanghai. Overall, the backlog in buildings went up 9% and particularly EC Harris, Asia and Continental Europe contributed to this increase.
With that, I hand it back to you, Neil.

Neil McArthur – Arcadis

Thanks, Renier. Turning now to page 30, we wanted to reiterate our leadership priorities for 2013. They remain unchanged: implementing the Pan-European operating model; stimulating improved organic growth and capturing the revenue synergies from the recent acquisitions that we have talked about; continue the journey to evolve our performance culture around margin, working capital and project management; clearly acquisitions to strengthen our positions both in emerging and selected material markets; and, as we said at the annual review, our strategic review and target-setting for 2014 through 2016 is high on our agenda as part of our leadership priorities for this year.

Turning now to page 31, the infrastructure business, growth continues: Europe in decline and US stagnant due to Government austerity that we just talked about; South America benefiting from large infrastructure and industry projects. For water the recovery continues, capitalising on opportunities in both South America and the Middle East. Industrial water (you saw the photograph there) working with major manufacturers where water is an important part of their P&L or an issue on the discharge side and also flood protection offers opportunities.

Environment, we expect momentum to return, a private sector demand in mature and emerging markets creates growth and our strong technology and guaranteed outcomes differentiate our position in the environmental market. Buildings, stronger organic growth, we have a strong presence in opportunities for synergies in global growth and involvement on the building side in both the capex and opex programs of our clients via our Built Asset Consultancy offering. So overall, the backlog is up 5% since the end of last year and now 12 months of revenue and the outlook for 2013, further increase of revenues and profit barring unforeseen circumstances.

With that, operator, I think we are ready to open it up for questions please.

Questions and Answers

Operator

Thank you. We will now begin the question and answer session. If you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish
to cancel your request, please press the # key. Our first question comes from the line of Bjorn Krook from ABN Amro. Please go ahead.

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**Bjorn Krook – ABN Amro**

Good afternoon gentlemen. Yes, I am almost born Krook, but it is Bjorn from ABN. *(Laughter)*... A quick question on the Netherlands and Belgium. You point out additional austerity programmes. Can you talk a little bit about how that is impacting you and whether it is at central government or more local?

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**Neil McArthur – Arcadis**

Yes, I can take that. For example, in Belgium very little work came out to market in this quarter at the municipal level and a limited amount at the national level.

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**Renier Vree – Arcadis**

In the Netherlands, Bjorn, a similar story, also there we see big clients for us like ProRail or Rijkswaterstaat, the relevant water authority, also slowing down in the amounts that they make available for projects while on the municipal level it was already pretty slow market and we have not seen any improvements there.

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**Bjorn Krook – ABN Amro**

Is that cautiousness from ProRail and Rijkswaterstaat on whether they will receive further cuts? So can they make that up in the rest of the year or is that a more permanent thing you think?

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**Renier Vree – Arcadis**

That’s, of course, hard to tell exactly what our clients are planning. What we see from the interaction with those clients and also other clients, we don’t expect to see further reductions to take place. The current level is a pretty low level so in that sense we do not expect that we see them going down further in the amount of work they bring to the market.
Bjorn Krook – ABN Amro
Now along the same lines you see a stabilisation, if I am correct, in buildings in the Netherlands. How is that – can you discuss that a bit more in detail?

Neil McArthur – Arcadis
Yes. I think we were very clear that Built Asset Consultancy as an offering that we have in the buildings market particularly is now gaining traction in the Netherlands. We have won work both in the private sector and we have lots of opportunity also in the public sector to talk about the opportunities with our clients to help them with the operational expenditure of their built assets, not just historically around the creation of new assets through capital expenditure.

Bjorn Krook – ABN Amro
Okay, so that’s helping you but it is not that the market is stabilising. You are actually getting more types of work.

Neil McArthur – Arcadis
We are getting new types of work by continuing to innovate in our service offerings.

Bjorn Krook – ABN Amro
Okay. Then my final question: is there any clarity on when we can expect comments on the outcome of the new strategic cycle? Will that be at Q4 or is there a timing?

Neil McArthur – Arcadis
I would reiterate what I said when we gave the 2012 results in February. We will complete the three year strategic view and we will announce the new or revised strategy and the implications of that when we present the 2013 results in February 2014.

Bjorn Krook – ABN Amro
Alright, thank you for reminding me. Thank you.
Operator

Thank you. Your next question comes from the line of Dirk Verbiesen from Kempen. Please go ahead.

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Dirk Verbiesen – Kempen

Good afternoon gentlemen. The first question I have is on the momentum you see in environment, which is picking up. Can you see anything on the pricing environment and pipeline? So does the pick-up in the order book, is it more structural or is there a risk that it is temporary because we see some mixed indicators if I can say so in the industry or activity levels in the US?

The second question I have is can you give a bit more feeling or background on the difference in the organic growth we see within Continental Europe between the Netherlands and Belgium and Germany and France?

The third question I have is also regarding Continental Europe. What is your view on the pipeline and does the negative trend in Q1, can it be temporary or at least move towards a less negative trend?

The fourth question I have is on the market in the US in the buildings segment. In Q4 you said that the commercial market started to recover but now on the other hand you are saying that the public sector (hospitals, for example) is cooling down. What is the overall view and can you say something or remind me on the split of public versus private in the buildings market in the US in your business? Thanks.

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Renier Vree – Arcadis

Hi, Dirk. Thanks for your questions. Well, talking about the environmental business, momentum is indeed returning, also visible from the improvement in backlog, as we mentioned. That is not just what is in our backlog. Also when we look at requests for proposals that we have seen coming in in the last months and weeks, also it tells us that the underlying market is good. We see that the pricing is competitive as always but we don’t see changes in that. So it is not that the margins are at risk going forward.

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Neil McArthur – Arcadis

Maybe I take the second work around the Netherlands and Belgium versus Germany and France. When you look into the details of the quality of the backlog moving forward, interestingly enough, we see more growth in the backlog in Q1 in the least performing entities such as the Netherlands and Belgium and that is this delay of bringing projects to market that we talked about versus more flat to mild growth in the backlog in Germany and France. Then if you look at the pipeline overall for Continental Europe, we see the backlog up versus the end of 2012.

Renier Vree – Arcadis

Talking about the buildings business in the US, indeed, in the last quarter of 2012 we saw the commercial business growing in the US and we also see it continuing this year, so there is more work for commercial, which is largely private sector. The public sector has more to do with healthcare and that is in the US but also in other parts of the world. I think your question was particularly aimed at the US and the healthcare business in the US is larger than the commercial. I don’t have the exact details here but, if you look at it, then the healthcare business, in combination with work we do for public sector construction management, is quite a bit larger than the pure commercial work we do in the US for buildings.

Dirk Verbiesen – Kempen

Thanks for that. There’s one follow-up question and we briefly discussed already this morning but what is your view and let’s say what happened after February and the announcement on the plan for Europe, the recovery plan for Europe? In what way are you preparing for let’s say another weak performance in Q2/Q3 which could impact the plans so far and also the measures that you indicated so far because I think, if I remember correctly, that the overall view for the plan was stable revenues development in 2013 and 2014?

Neil McArthur – Arcadis

We are very happy that we timely looked at Europe in the last four months of 2012 and the first couple of months of 2013. So we have a very clear view on what we want to achieve around our three areas and that is the areas of excellence for growth; the second one around process excellence in our core process; and, thirdly, the reduction of costs in order to have a Pan-European operating model that delivers more effective and efficient services to our clients. So we have a very, very detailed plan. The focus was initially on cost out, which we have demonstrated that, although we only announced this at the end of February, we have already managed to get
€1.9 million of cost out of the P&L which, annualised, turns into €8.6 million of real savings annualised run rate for this year.

The focus is now shifting, that we have all these initiatives in place on cost out, to driving superior growth on the top-line around the five areas that we mentioned during the presentation around creating more scale in our environmental remediation services business across Europe to serve clients, making sure that we are bringing Built Asset Consultancy to the clients where we see great opportunities to do that work, creating skill in an offering on rail on a more Pan-European business in the same way as with ports and waterways, and then focusing on the lenders and investors as a sector. All of those actions are now kicking into gear in Q2. That was always the plan.

With growth initiatives, it always takes longer for those to flow through than it does cost initiative. So we will continue to update every quarter on our progress, both on our areas of excellence and on the improvements to costs that we have shared with you.

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**Dirk Verbiesen – Kempen**

Okay. So what it actually means is that you are targeting in an underlying market which could decline further, you should be start outperforming as from Q2 by gaining market share with new initiatives?

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**Neil McArthur – Arcadis**

No, be very careful what I said. I said that it takes longer to get growth initiatives flowing into your P&L because there’s the value proposition developments working together that’s chasing proposal and before those proposals are won and turned into revenue, there is much more of a time lag than there is of simple direct costs out of the P&L.

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**Dirk Verbiesen – Kempen**

Okay, that’s clear, thanks.

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**Operator**

Thank you. Your next question comes from the line of Philip Scholte from Rabobank. Please go ahead.
Philip Scholte – Rabobank
Good afternoon – a question on the underlying operating EBITDA margin in the quarter. I was actually a bit disappointed by it moving back to the low 9-ish level. Does that have something to do with maybe EC Harris, with some cautious profit-taking there, or is there anything particular here besides maybe Continental Europe playing a role there? Obviously, your target is 10% or more and there still is a lot of volatility in there as well. Is there something more you can say about that?

Renier Vree – Arcadis
Hi Philip. When you look at the margin, 9.2% is the quarter. Last year it was 8.8 and I think you remember last year EC Harris was cautious. This time we had a very strong quarter for EC Harris in terms of top-line and bottom-line. So as we also put in one of the slides, if you take out Continental Europe from the margin, we were at 10.8%. If you would make the same calculation for last year, it was 10.2%, so you can see an even greater contribution for the part of Arcadis outside Continental Europe. Put in reverse, Continental Europe delivered a margin of operating EBITDA of 4% in the quarter compared to 5% a year ago. So the issue is really Continental Europe is what I want to underline with these comments.

Neil McArthur – Arcadis
(Off-mic)... we have got a very clear view of how we are addressing the cost base and we are making good progress towards that, which we have shared with you.

Philip Scholte – Rabobank
Right but then, indeed, maybe coming back on the previous question as well, despite already achieving some cost out, the margins are still going down.

Renier Vree – Arcadis
Yes but also take into account, Philip, that in Europe (what is it?) around €100 million revenues in Q1 which went down 10%. That’s €10 million net revenues taken out of the top-line. Then we took out almost €2 million of costs in the quarter and still being able to have a margin of 4%. That’s not what where we want to be, let’s not make a mistake about that, but compared to the
5% last year, I would say that is a pretty decent way of addressing a very tough market in a quick way.

Philip Scholte – Rabobank
Right but it’s still heading the wrong way.

Renier Vree – Arcadis
We don’t disagree there. We would like Europe to do a lot better. Our part and the market part, we will work on the costs, we work on the growth initiatives and the overall market is for other people to work on.

Philip Scholte – Rabobank
Right. My other question is around your remarks about a slowing market in the mining and energy in Brazil probably that is. What are you exactly seeing there and do you, indeed, believe that you can compensate that with work in Olympics, World Cup kind of stuff?

Renier Vree – Arcadis
What we see in Brazil and also in Chile is that the mining sector is still robust and we have also shown growth there in Q1. Nevertheless, you see that our clients, having had big increases in their capital investment projects in prior years, they are now stabilising those investment levels. That also means that it takes more time to decide and prepare. That means we have less visibility than before. I think before sometimes already our resources fully utilised in the plans quite a few quarters out there. That is now different, so we are still working on projects to be brought in to realise utilisation towards the second half of this year.

So in that sense the market has changed but it is still full of opportunities and the public work is, indeed, an additional revenue driver in South America. We showed you the examples of the success we had. We have the ETEP company that we acquired last year which will help us to further grow in the water business. So that means all in all we expect South America to grow organically also for the quarters to come.
Philip Scholte – Rabobank
You said the mining and energy part was still growing?

Renier Vree – Arcadis
That is correct.

Philip Scholte – Rabobank
Alright. Maybe lastly, the tax rate continues to be a bit high whereas I think after the Langdon & Seah acquisition you said it could become a bit lower. Is there any progress you can tell us there?

Renier Vree – Arcadis
We are pretty consistent in how we calculate our tax rate in the spread of the Company around the world and what you see is still that the US, being a big profit generator for us in a continent that has the highest tax rate for companies, is impacting the tax rate while in Europe a number of countries have lowered the tax rate but clearly, with the low profitability there, that doesn’t help to bring down the average. So compared to last year, I would say it is almost the same percentage. Over time, with further growth in Asia, we will still continue to optimise our tax rate where it is possible.

Philip Scholte – Rabobank
Alright, thank you very much.

Operator
Thank you. Your next question comes from Robert van Overbeek from Cheuvreux. Please go ahead.

Robert van Overbeek – Cheuvreux
Hi, it’s Robert from Cheuvreux. I am looking at the associate income. Now it is positive 1 million approximately. The last two quarters it was negative by around 1 million. Can you remind me of the metrics that caused these volatile results?
Renier Vree – Arcadis
Hi, Robert. There are a number of activities that fall under the income from associates. One is some of the joint ventures we have, for instance, here in the Netherlands but, more importantly, it is the activities we do in Brazil for the energy projects and there we were profitable in Q1 and also in Langdon & Seah in the Asia countries. Results are not consolidated with income from associates and also there we have gains but the difference with prior year and quarters was really in Brazil.

Robert van Overbeek – Cheuvreux
Is that also a good run rate there for the following quarters, that you expect a small positive result in the coming quarter?

Renier Vree – Arcadis
This part of the business is a bit harder to predict than the difficult consulting engineering business we are in but, looking at the plans and initiatives that are taking place in Brazil around that business, then I expect that also for the coming quarters results will be positive.

Robert van Overbeek – Cheuvreux
Thanks.

Operator
Thank you. Your next question comes from the line of Eugene Klerk from Credit Suisse. Please go ahead.

Eugene Klerk – Credit Suisse
Good afternoon – two questions. First of all, as a data question, could you give us the margin by region? I think you have hinted towards Continental Europe and if you could give it for the UK, the rest of Europe and then the US and the rest of the world.
Separately, on working capital, you have explained a little bit some of the extraordinary reasons for the reduction in working capital or deterioration in working capital. What sort of guidance can you give us for the full year? Should we expect a recovery in Q2 and then stable YoY or would you still be able to improve your working capital on a full year basis despite Q1?

Renier Vree – Arcadis
Thanks, Eugene. On your first question of the margin per region, as you may remember from prior years, we typically provide that here and for the full year this time, given the significant developments in Europe, we thought it was good to back out the Continental European results here and give you this as additional data and by mid-year we will give you the same also for the other regions.

When it comes to working capital, you are right about the extraordinary reasons for that and, as we indicated, also the way the cash collection started to take place in the beginning of April makes us confident that the underlying processes and payment behaviour have not shifted from our clients, which means that in Q2 we should see a benefit from that. For the full year we continue to aim for the earlier mentioned 14% of working capital. We realise that the markets we are operating in and credit situation in a number of countries don’t make it easier but it doesn’t mean we back away from our ambition to bring the working capital to 14%.

Eugene Klerk – Credit Suisse
Just to clarify and to come back on the margin, that is a 4.0% margin for Continental Europe?

Renier Vree – Arcadis
I think the exact calculation is just above that. It is 4.1 according to my calculations.

Eugene Klerk – Credit Suisse
Okay, thank you.

Operator
Thank you. Once again, that is *1 if you have a question. Our next question comes from the line of Quirijn Mulder from ING. Please go ahead.
Quirijn Mulder – ING
Quirijn Mulder from ING in Amsterdam. Good afternoon gentlemen. My question is about the targets you have for EC Harris for 2013. Is that still the case and can you maybe elaborate better with regard to the cross-selling revenues you are making after the 70 million reports in the annual report?

Neil McArthur – Arcadis
The target for EC Harris remains the same, that we will within a three year period come to an operating margin of 10%. We are well on track to do that with the project that we defined last year and now we are fully into implementation of that. You saw one of the unfortunate side effects of that is, with five offices coming together and putting systems together, we didn’t get all of the invoices out on time in the UK but we are addressing that immediately. But the targets remain. We are very confident of the growth targets that we have, both on the revenue side and also the margin development at EC Harris.

In terms of the cross-selling, now they are fully part of Arcadis and we are now operating as one entity, we no longer track separately the synergy opportunities because people are now working in Germany as Arcadis and in the UK as EC Harris together. So that is fully integrated and it is one operating entity now and we are very confident that we are winning large opportunities, such as the Kingdom Tower, with the joint capabilities of Arcadis and EC Harris. Then we have the Built Asset Consultancy as a service offering that is now really gaining traction in some of the key markets around the world; in North America, with some of the large multinational clients Arcadis historically have had and then also here in the Netherlands both in the private sector but also, interestingly, in the public sector.

Quirijn Mulder – ING
Okay. Can you maybe – maybe Renier can give us some feeling about the revenue development in the Netherlands overall. Is that possible?
Renier Vree – Arcadis
I think (off-mic)... the margin growth per region, even by country now, but let me look at the Netherlands. I think we already indicated that Continental Europe has -10%. That's also the type of level of decline we saw in the Netherlands. It was in that same range.

Quirijn Mulder – ING
And how does it compare to the let me say bottoming out of the buildings segment? Is that let me say the bottoming out of the buildings segment, is it then let me say in April or in March or something like that? How should I see that then?

Renier Vree – Arcadis
When we look at our bookings and the direction from our clients on the propositions we have made, that makes us confident that we have seen the worst in the buildings segment in the Netherlands.

Neil McArthur – Arcadis
Historically, our business in the Netherlands has been around building new assets for clients, project management of that, some design of that, cost management of that, and now we have got additional offerings through Built Asset Consultancy that help clients look at the portfolio of buildings or assets that they have and we have consulting offering to be able to help them reduce the operational cost of those assets and how to readjust their buildings and asset portfolios and there we are seeing an uptake in those consulting services, both for the private sector and we have quite a number of leads on the public sector side now as well.

Quirijn Mulder – ING
Okay. Can you quantify the Sandy effect in your portfolio?

Renier Vree – Arcadis
It will be around more than 20 million that we already have booked so far and then there is at least that amount still coming to us in the next weeks and months.
Quirijn Mulder – ING
And that is euros?

Renier Vree – Arcadis
That’s dollars.

Quirijn Mulder – ING
Thank you.

Renier Vree – Arcadis
Sandy was an American storm, so those numbers are also in dollars.

Quirijn Mulder – ING
No, you are speaking about euros. Okay, that is dollars then. Thank you.

Operator
Thank you. You have a follow-up question from the line of Bjorn Krook. Please go ahead.

Bjorn Krook – ABN Amro
Guys, a quick follow-up. On slide number 7 where you give the examples of European collaboration, of course, I have never designed a building in my life but these projects all look like they have quite a long lead time. Is this really the results of the work of the last couple of months? I get the feeling that this was already going on before this. So are these really the results of the parts you have taken since February?

Neil McArthur – Arcadis
Well, remember we have been working as a team since the fall of 2012 on developing the new operating model for Europe. That’s a journey of figuring out where we can create synergy on the client side and also synergy on our operating model Pan-European shared services. So clearly the teams have been working together and where there have been opportunities where we could
leverage the capabilities from different historical, separate operating entities to win work in a
different geography, we have been doing that over the period since the fall of 2012. What you
see here is the result of work that has been won in that period leading up to the end of Q1.

Bjorn Krook – ABN Amro
Yes, okay. Just to clear, if there would not have been any collaboration, you would have not won
this work. Is that how I should see this?

Neil McArthur – Arcadis
Yes, correct. Well, you don’t know because you can’t do Monday morning quarterbacking but
what we know is that by combining our capabilities we have been able to win this work at these
clients.

Bjorn Krook – ABN Amro
Okay. Is there also a difference then in pricing? I am not sure but you might have higher margins
in Belgium, for instance, and can you then roll then into other countries as well? Is that also how
that works?

Neil McArthur – Arcadis
The goal is to go after the excellent offerings that we have and the excellent offerings obviously
are directed at making sure that our clients are satisfied about the services that we deliver.
Clients that are satisfied generally pay a higher price as long as our solutions are effective to their
business. So if you make that principle work well, usually we are able to make good money.

Bjorn Krook – ABN Amro
Okay, thanks.

Operator
Thank you. As a further reminder, that was *1 for any questions. We have a follow-up question
from the line of Eugene Klerk. Please go ahead.
Eugene Klerk – Credit Suisse
Just a very minor one. Could you give us some guidance on your interest expense item for the full year, given the Q1 number?

Renier Vree – Arcadis
Eugene, our interest expense is on average around 5% for the year.

Eugene Klerk – Credit Suisse
Okay, thank you.

Operator
Thank you. There appear to be no further questions at this time. Please continue.

Neil McArthur – Arcadis
If there are no further questions, I would like to thank everybody for joining the call. Hopefully, we have provided clarity around the results in Q1. Despite tougher market conditions in Europe, we have managed to overall grow the Company and improve operational EBITA and operating margin. We look forward to talking to you again at mid-year when we will give more detail around both the regions and the global business lines, so I look forward to talking to you then. Thank you.

Operator
Thank you very much. That does conclude our conference for today. Thank you for participating. You may all disconnect.