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Presentation

Operator
Thank you for standing by and welcome to the Arcadis Q2 Results Call. At this time, all participants are in a listen-only mode. There will be presentations, followed by question and answer sessions (operator instructions). I must advise you that this conference is being recorded today, Wednesday 31\textsuperscript{st} July 2013. I would now like to hand the conference over to your speaker today, Joost Slooten. Please go ahead.

Joost Slooten
Thank you. Good afternoon and good morning, welcome to the Arcadis Q2 and First Half 2013 Analyst Meeting and conference call, for which the press release went out this morning. Just a word of caution on the press release, in the fourth bullet of the press release we talk about net debt to EBITA, that should be net debt to EBITDA being at 1.5.

With us today from management are Neil McArthur, CEO, and Renier Vree, CFO, who will take us through the results, after which we do a Q&A session. We also have Matt Riley, Global Head of Infrastructure, Industry and Utilities from EC Harris, who will present on Arcadis in sustainable urban development. The presentation for today’s session is on www.arcadis.com and I want to remind you that in today’s presentation, management may make forward-looking statements and I want 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 go ahead.

Neil McArthur
Thank you, Joost. I am turning now to page four of the presentation and we are pleased to report a return to organic growth with Arcadis in the second quarter. Our net revenue organic growth is at 4\% and that’s been driven by all regions other than Continental Europe. The operating margin is comparable to last year, despite a margin decline that you’ve seen in Continental Europe. Our net income from operations is up 2\% in the second quarter and we’re reporting 5\% increase in net income from operations in the first half of the year, reflecting the growth of revenues and margin in the first half of 2013.
In the quarter, we also completed a $90 million US private placement to replace maturing bank debt, giving us on a leveraged ratio improving to 1.5. Project Europe achieved cost savings of 5.1 million in the first half of the year and is now at an annual run rate of some 12.9 million, with cost actions ahead of schedule. We've updated our outlook. We’re projecting a further increase of revenues and a profit growth of between 0 and 5% barring unforeseen circumstances.

I’m now on page five. Our strategic progress continues; the mergers with EC Harris and Langdon & Seah. If you look at the synergy wins that we've already booked in the first half of 2013, that equals the total synergy wins that we had in the whole of 2012 at 70 million. In terms of implementing our new operating model in Europe, that’s very much on schedule; the growth initiatives that we talked about at the end of the first quarter are on-going and we've seen a backlog growth of 7% in the first half of this year versus the end of 2012. Cost actions have been accelerated and we expect a positive margin effect in the second half of this year.

In the first half of this quarter we've had major wins including frameworks with multinational clients and the major project here in Amsterdam on the Zuidas, and several multi-million environmental projects for oil majors in the US. The two acquisitions that we made in the first quarter of Geohydrología and SENES, they're progressing as planned, with the first synergy results being visible and a pipeline of opportunities for the rest of the year. M&A remains on the agenda and we’re looking to strengthen our market leadership positions.

If you now zoom in on Continental Europe and turn to page six, as I said, the implementation is on track. We have initiated these growth initiatives in the second quarter that we talked about at the end of the first quarter, and the process improvements that we outlined are underway. Cost actions are ahead of schedule and, as I said, we're now at an annual run rate of €12.9 million and that means that we've burnt 6.5 out of the 20 million of restructuring that we highlighted when we announced the plan.

We talk about the growth initiatives in Europe, I'm turning now to the next page, here are four examples of how the new Pan European operating model are really working for our clients. The top picture is for BNP Paribas in Brussels where we've had four different entities from Arcadis working together in order to win the project management, the cost management, the construction management, and consulting for the realisation of the renovation of the headquarters of BNP Paribas in Brussels.
If you look on the picture on the bottom left, the new operating model is working for us in cross-border cooperation and order, with the most recent flooding issues in Central Europe, where we've had teams working from Poland, the Netherlands and Germany together in order to win work, and the one that’s highlighted here is a logistics centre in Poland.

If you then look in the middle of the page, for a major global automotive manufacturer working and pulling together the best of Arcadis Pan European from our environmental practice in order to win work for the site closure and remediation of major automotive facilities in two countries in Europe.

Finally, in the bottom right hand corner, doing the project management for Philips’s headquarters in Germany and Hamburg, again bringing the best of Arcadis to win that work and deliver that work for Philips in Germany.

If you now turn to page eight, we've had strong organic growth in the quarter, double digit growth in the emerging markets, and, as you can now see, the emerging markets is 24% of our gross revenue at the half year point, up from only 13% two years ago. That makes emerging markets now 37% of our headcount on a global basis and, as you can see, growing at a rate of 61% compounded over the last two years.

Now, with that introduction, I'd like to hand over now to Renier Vree, our Chief Financial Officer, to take you through the results in more detail.

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**Renier Vree**

Yes, thank you, Neil. Let’s look at page 11 for a summary of the performance in the second quarter, with the growth of revenues at 1% and on net revenues with our own staff 5%, EBITDA was at 12%, and if we adjust that for non-operational items like restructuring charges and acquisition related costs then the operating EBITA went up 3% and came in at 9% for the quarter. Net income from operations was a 2% improvement at €34.1 million and based on the number of our shares in the second quarter that means €0.34, and on the next page the same overview for our first half year performance. Also, here growth of revenues and EBITA; operating EBITA up 6% with a margin in the first half at 9.1%, slightly up from the first half last year, and net income up 5%, as well as an improvement of 2% for net income from operations per share, so earnings per share.
Moving to page 13, which shows the overview of the organic growth of the four business lines, the black line indicates the organic growth for Arcadis, so you see that 4% in the second quarter, up from the flat growth in Q1, and you can see that the environmental business line grew most, almost 10%, and that was in all regions we saw there the environmental business improving. That’s also on top of a pretty Q1, the severe winter which we explained in the first quarter, both in the US and Europe the number of working days because of the weather circumstances were far from ideal. The buildings business also improved significantly; it was also helped by the performance of EC Harris and Langdon & Seah; Langdon & Seah now in Q2 part of the organic growth, not yet in Q1, helping there our performance.

Infrastructure is the net impact of growth we see in the emerging markets, particularly in South America where there is an offset with the decline in Continental Europe and the combination is just above the zero line. Our water was negative at -5% organically and that was caused by both in the US and Continental Europe less spending by the public sector on water management projects.

We look on the next page, at the development of operating EBITA for the quarter, you can see here the currency effect was a negative 3% because of a weaker UK Pound, Brazilian Reais in particular; acquisitions and here SENES is including as well as [unclear] of 5% and an organic development of 1%.

In the quarter we had restructuring and integration charges of €5.6 million, a little more than we had last year, and the costs to acquire SENES were €1.1 million, less than the 4 million we spent last year to acquire Langdon & Seah, and the organic growth is a net impact of the contribution from the emerging markets in particular.

For the first half year, the currency effect was almost -3%, acquisitions more than in the second quarter were 9% and that’s particular because Langdon & Seah in the first quarter was still part of acquisitions and not yet organic growth. For the rest, no significant differences, and organically it is flat for the first half year. The restructuring and integration charges were 8.7 million, so up from last year and most of that related to Continental Europe, as you could see from the slide that Neil showed you earlier. The impact of the organic development was a negative for Continental Europe and, again, positively pushed by the UK and the emerging markets.

Moving onto the next page, showing the margin per quarter; you see there the 9.2% in Q1 and the 9% in the second quarter of this year. We would exclude Continental Europe from the calculation and the operating margin was 10.8%, both for Q1 as well as for Q2 and you can see
also from looking at 2011 and 2012 that typically our second half year generates higher margins
than the first half year.

Going to page 17 showing the net income from operations over the last five years and there you
can see the trend of the net income and the earnings per share that we have realised over those
years.

Moving onto the cash flow on the next page, the cash flow for the quarter lower than it was in the
second quarter and a number of factors here. We saw a strong development of working capital,
our working capital declined from the high level of Q1 to a much lower level in Q2 at 18.4%, still
slightly up from where we ended at the end of June 2012. The difference is on the payroll side
because of less sub-contracting and doing more work with our own staff the ratio changed
somewhat for both the working capital, didn’t have the impact of the payrolls, and the gross
revenues which is part of the equation was also relatively lower; nevertheless a significant
improvement from those at the end of March.

Outside the net working capital also some other cash flow items, one is the salary payments
particularly in North America, then we have a two weekly pay cycle and that happened to be that
the first payment for the month of July happened already in the end of June, it was two weekly
payments that can happen, which has an impact on the quarterly cash flow for the phasing of the
cash for the year, of course the total number for the year there is no impact, and similarly for tax
payments, also here we are speeding the cycle of having work in progress invoiced faster to
clients; by the way you have to pay corporate income tax is based on what you have invoiced
to your clients on an annualised basis and that is speeding up of this process led to a higher tax
payment in the second quarter and also there we will see a more logical development in the
quarters after this to compensate for this.

The last reason we mention here is the payment linked to the acquisition of Langdon & Seah last
year. Langdon & Seah came with cash but it was also to make sure that the cash would not be
required to run the company. There would be sufficient working capital so we agreed with the
management at a point in time that after a year it would be pay back the cash in the company
after we were sure that the cash would not be needed to win Langdon & Seah and that payment
of $10 million happened also at the beginning of the second quarter, and the focus of working
capital as you have heard from us continues throughout the company.

Then our balance sheet, on the next page, 19, the balance sheet continues to be healthy. Our
net debt, €401 million at the end of June, that means that our net debt to EBITDA, calculated as
we do it with the banks, taking the June and the December net debt applied to the EBITDA with a level of 1.5 which is equal to where we were at the end of December 2012.

The refinancing that Neil spoke about is also visible from the graph at the bottom of the page where the maturing debt for 2013 was paid…was refinanced with a private placement with the US bondholders for 2018, so that’s the bias in 2018 and from this overview you can see that out…the maturity of our loans has a nice spread over time and also the sources of our loans are well diversified.

Moving into the business lines, starting with an overview on page 21, where you can see the development for the first half year, gross revenues over the last three years, while buildings has shown the biggest increase with a compound annual growth rate of 42% and it’s mostly driven by the acquisitions of Langdon & Seah and EC Harris.

Then giving some more details on the individual business lines, starting with infrastructure on page 23, you see there again the details on the build-up of the revenue development and are focusing on the net revenue development organically, +3% here for infrastructure for the first half year, and the biggest contributors were the emerging markets as mentioned, particularly Brazil. There also the UK is seeing an increased level of infrastructure spending. In North America we have seen that there is more money available for projects around transport planning, so highway efficiency. The margin development was slightly below the level of 2012. It came in at 7% and the drag on the margin here was caused by Continental Europe. There was a number of very good projects; probably the most prestigious [unclear] was the Zuidas project just opposite our headquarters where we will see a highway going underground and a new railway station being built on top of that. That’s of course very exciting to be able to watch that on a daily basis. In Los Angeles there was a large metro project where we became part of earlier in the quarter.

Having a look at the water business line on page 25, here organic growth -2% for the first half year, ETEP was acquired at the beginning of Q3 last year so that will only show organically later this year. Nevertheless, the UK did see some growth here. The austerity impact from Governments having less money available to spend on water management, so dykes and coastal protection in Continental Europe and also in the US had an impact on our revenue development. Margins were therefore also lower; came in at 8.3% compared to over 10% last year of the first half year, across utilisation due to the lower revenues, was at a declining level. The water project in Texas around water management and also in Sao Paulo, we see that together with ETEP we start to bring a number of significant projects, including the one mentioned here.
Having a look at the environmental business, I am now on page 27, there we have seen for the first half year organic of 3% and, as you will have seen; there was a benefit in Q1 and a strong positive in the second quarter. Here the emerging markets did well and the most significant one here is the Brazilian development again, and some parts of Continental Europe also are showing a growth in the environmental business, helped by the development with multinational clients.

SENES and BMG were the acquisitions related here as well; SENES in Canada but also did some activities in India. They contribute to the acquisitive part of the growth. Margin was almost level with what we have achieved in the first half of last year, which is a combination of slightly lower margins in the US due to low availability and higher margins in the emerging markets.

We’ve just done a very good framework contract which we issued a press release out a while ago with British Petroleum, but also a number of other multinational multi-million Dollar projects around the remediation projects in our North American business.

Finally, the buildings business line, here organic growth in the first half of 2%; I'm on page 29. It was the emerging markets that had the strong growth here. We also did see that our architectural activities, which are in RTKL, you see growth for commercial real estate in North America and growth in Asia, and that’s a little bit a mixed use, a combination of retail, commercial property for offices and also residential housing.

In Continental Europe and in the US, the overall picture was negative for the buildings business line due to the lower spend overall and in the US also the lower healthcare spending is impacting revenues. The margin improved significantly from 7% last year now to 8.8% for the first half year, and again here the emerging markets contributed to this, but also EC Harris had a strong performance in the first half. The wins we had in this business line relate to education projects in the UK and also in the Middle East where the buildings business line is doing well. We want the project to expand the King Faisal Hospital in Saudi Arabia.

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

Neil McArthur
Thank you Renier. Turning now to page 31, reiterating our leadership priorities for 2013 that we shared with you earlier this year and one page in the first bullet point is around implementing the Pan European operating model and the acceleration of the cost savings associated with that, given the situation that we face in Continental Europe. We’re going to continue to stimulate
improved organic growth and we’re happy to report the 4% net revenue organic growth in the second quarter and capture those revenue synergies from the recent acquisitions, and as I said we have now booked the same amount of revenue synergies in the first half of 2013 as we did in the whole of 2012 with Langdon & Seah and EC Harris. We’re going to continue the journey to evolve our performance culture, working on our margin improvement, working capital, and project management. Right at the beginning I also talked about acquisitions still being on the agenda to strengthen our leadership positions and, as we indicated the last time that we met, our normal strategic review on the three-year cycle will now ride in the middle of that and we’ll share our strategic review for the period 2014 through to 2016 when we present the 2013 results in February.

Move now onto the outlook, infrastructure we see growth continuing, good potential in the emerging markets, public sector spending is up in both North America and the UK. Europe will stabilise and Chile we expect to decline. We have seen quite strong competition in Chile in the public sector infrastructure, because of Spanish speaking engineering and contractors coming to that market, and undercutting significantly on price in order to win work.

In terms of water, we anticipate improvement in North America, we expect to pick up. We see good growth in emerging markets and the merger with ETEP in Brazil is working very well for us. We continue to win work in the Middle East with our organic growth and we have launched in this quarter our water initiative in Asia. Continental Europe we see lower in terms of, as Renier outlined, municipal spending on water management where we see further opportunities. Water for industry that we’ve talked about with our multinational clients continues to grow very successfully for us on a global basis.

Environment, we expect to maintain momentum driven by demand in the private sector, especially the multinational clients, and if we talk about our multinational clients, that’s our top 50 global clients, household names, and they’re growing at 15% this year year-to-date. We see opportunities in mining. We had our first wins with SENES and a pipeline of opportunities there. We see growth in North America, UK and emerging markets in environment.

As Renier highlighted, on buildings we see solid organic growth. Built asset consultancy continues to drive global growth. We do built asset consultancy as I’ve shared with you before now in every region around the world with Arcadis and we have the synergy sales at 7 million for the first half. We see growth in the emerging markets in the UK but we see further decline in Continental Europe in the buildings market.
Overall, the backlog is flat despite the fact that we've had higher revenues in the first half of the year and we're up 5% since year-end 2012.

We expect, moving forward, higher margins from cost improvements in Continental Europe; remember we talked about the amount of savings that we have on an annual run rate now of 12.9 and we are able to see a way forward for rate increases in North America, so the outlook for 2013, a further increase of revenues and profits up between 0 and 5%, barring unforeseen circumstances.

With that, Joost, I think I'd like to open the floor to questions.

Questions and Answers

**Björn Krook – ABN Amro**

In the press release you speak about higher legal costs in the US. Can you disclose how much that is and to what extent that is one-off in nature? The second question is at a time that you announced the target for 10% operational margins in Europe; the scenario was for flat growth or 0% growth. Now, we've seen -10% in the quarter and now -4%; how comfortable are you still with reaching that target? Is the current plan enough? What's different from when you originally spoke about the scenario? Could you share with me the organic growth per region and the profitability of the order book that you're seeing? Is the profitability in your order book increasing? Thank you.

**Renier Vree**

Well, the legal costs for North America were a couple of million. We always have legal costs obviously to run our business and to deal with situations, but sometimes there are cases that come in a bit lumpy. That happened to be in the second quarter this year and based on what we can see, that will be different in the second half so this will not repeat itself and shouldn't be seen as a one off or even an offset we would see in the second half.

**Neil McArthur**

The second question around Europe and where we stand there, remember the rationale for doing it was to better serve our currents on a Pan European basis. It was to have a more effective and
efficient operating model to serve our clients. We gave ourselves two years in order to move towards fully exiting in Q4 the 10% operating margin for Europe and the assumption would be flat revenues, so what have we been faced with? -10% net revenue decline in the first quarter, so therefore we said we need to accelerate the cost savings that we had already in place and that’s why you see now the significant increase in actual costs out in the second quarter, so that we’re now at a running rate of nearly €13 million. The acceleration of cost actions will continue. We also reported at the end of the first quarter that we had put our growth initiatives in place and I think we shared four or five of those with you then. Just to repeat, doing Pan European on built asset consultancy, ports and waterway, rail, lenders and investors, and environmental remediation on a Pan European basis, so those were the areas that we have really focused on and started to drive growth. We shared with you four examples where we’re seeing success in Q2 and we reiterate that we are committed to the 10% operating margin target for the fourth quarter of 2014.

Third one, organic growth by region.

Renier Vree
Yes organic growth by region is not something we disclose typically at the mid-year point. My guess is you knew that. Maybe we shared about Europe, Continental Europe being at that 4% for the quarter so -7% for the year-to-date. Like I said, emerging markets did very well so there was a double digit growth there. UK also grow and also in the US we saw a slight increase. In terms of order book, well, we don’t measure in detail the order book, which of course we get from our organisation’s insights on how the order book is developing. I think when you look at North America, based on what Neil mentioned, the rate increase, which is a very important element in the end of our profitability, that bodes well for the second half. There we would see higher margins coming out of the newly won orders. In Continental Europe it’s not that the pricing is improving. It’s really at a cost level we have in our company to do the projects where we will see the benefits coming from for the UK and emerging markets; the margin in the order book is not something we have to worry about.

Björn Krook – ABN Amro
And a quick follow-up if I may on North America and the rollover of old contracts into new contracts at higher rates, how quick is that…is that going to be visible in Q3 already or…I guess that has to do with the salary increases…
Renier Vree
Yes, we want to talk to our clients in the second quarter in combination with the salary increases that took place. In the US by the way for a number of years there were hardly any salary raises then and now with the improved economy, the whole industry and I think also other industries are starting to give raises to people then, so you see then our trend that as a consequence of the salary increases also our prices are going up, and based on the contracts that we already renegotiated with clients, we will see an impact already in the third quarter.

Luuk van Beek – Petercam
I have a question about infrastructure, because the comparison makes this quite easy, because last year was depressed by the Polish problems so I think that you mentioned a figure for a 9% margin underlying back then, so it’s quite a significant impact of the Continental European problems and going forward you guide for flat revenues, do you think that additional cost savings are necessary and, in general, do you tend to step up your 20 million cost savings target for Europe?

Neil McArthur
At this point in time we’re accelerating the cost targets that we have, so bringing that forward. We’re not upping the target in our communication to the market.

Luuk van Beek – Petercam
Do you think additional measures are necessary in infrastructure other than accelerating?

Neil McArthur
As we clearly have identified, we have said that we’re going to accelerate the cost measures that are required to put us on track to the 10% margin by the fourth quarter of 2014.

Dirk Verbiesen – Kempen & Co
My question is on working capital. What did exactly happen in the liability side? Is that the salary increases that’s the main contributor there or is the paying scheme towards your suppliers changing? The second question I have is on mining. On the one hand we see you being more
cautious in Chile and on the other hand in environment you're stating that the outlook for mining is improving, so what is the overall trend there? That's the second question. The same for environment on utilisation, given the trends in the order book versus revenues in Q2, what makes you so confident that utilisation will go up going further into the second half? Is that order driven or maybe also cost savings in terms of people, and when do you expect Europe to bottom out overall? You say something on the infrastructure and maybe in the overall picture. That's it for now.

Renier Vree
On working capital, liabilities declined because we had those pay-outs for the accrued salaries, that payroll item, and also the tax payments we made, so those are the most important shifts in the liability side. Those items are not part of net working capital, that's why there is a difference between when you look at the cash flow statement between the moves in overall cash and the changes in net working capital.

Neil McArthur
If we then talk about mining, Chile is copper mining and copper prices are depressed, so therefore it's really a State-owned company and they're pulling back on major capital expenditure and finishing projects that they currently have on the board. Where we see the growth is in North America in cleaning up the environmental problems of the past in the mining sector and we see that as an area that continues to grow at this point in time for the second half of the year, and when we look at Brazil it's mainly infrastructure related mining work that we do and there we see our clients continuing with the major projects that they have on-going within Brazil and internationally.

I think the third question was around utilisation, is that driven by orders versus cost savings? In Europe it driven by...we have, as we've shared with you, 7% more backlog in Europe since the end of the year and we've accelerated our cost actions, which will help us drive higher utilisation, and then in the US with the increasing revenue in the US we will get back to a higher level of utilisation based on the orders that we see versus as we've said in the first quarter, first half, there was the weather issue in the US where we couldn't get back to full utilisation.

Renier Vree
On Europe, that's of course a great question, is Europe bottoming out? As far as the market is concerned, we don't really know, but I think as Arcadis is concerned we do know and we think for Arcadis we have bottomed out. From Q3 we will start to see improved results in Continental Europe for the reasons mentioned and the actions we have taken around growth and around cost reductions.

**Berre Simonse – SNS Securities**

I first have a question with regards to buildings. It now has a margin of 8.8% and I was wondering what the margin now is at EC Harris. Has it improved this year and how much? I have a question with regards to environment. It had a small margin decline even though it was nearly flat, but you state that the US had a lower margin and the EU had a higher margin, so how much did the US decline and the EU increase? I have a third question with regards to restructuring. It’s going faster and better than expected, so do you expect a higher cost reduction overall than reported 25 million or do you still expect 25 million?

**Neil McArthur**

EC Harris continued to improve their margins. Last year we were above 9%. We're above 9% now with EC Harris in the first half of this year. Second one, the question around environmental margins being essentially flat. Yes, they're down in the US, we don't give the information by region, but they're down in the US. They're significantly up in emerging markets versus last year and they're up in Europe and the UK. Third, restructuring higher costs, as I've said, we're accelerating those cost measures, we're implementing the process redesigns, we're driving hard growth initiatives that we put in place, and that's the plan that we're sticking to at the moment.

**Philip Scholte – Rabobank**

I would like to have some more granularity on the Continental Europe. Can you say something about individual countries or developments, anyone particularly weak, anyone particularly doing well? Maybe on the restructuring can you say which steps you have already implemented there; is the centralised management team already operational? Where are you in terms of IT, offices? Some more steps on that would be appreciated. Then a couple of administrative questions, the sale of the biogas installations in Brazil, where are we? Regarding your guidance for the full year, you're not particularly saying...you're saying profit but it's still net income from operations. The last thing maybe can you share with us your targeted net debt level at the year-end?
Neil McArthur
On the first question about Continental Europe and individual countries, we’re not going to talk about individual countries. We now have a fully operational Pan European operating model with a management team in place. We have a centralised virtual finance organisation with one CFO for Europe; similarly we have one CIO on IT, with the organisation linked to him on a Pan European basis. We are centralising real estate management and we’re redesigning the processes for Pan European HR at the moment, so that team is fully operational and, therefore, we’re not going into individual countries in Europe. Further to say that the situation across Europe in all countries we’re seeing a similar situation.

Renier Vree
As far as biogas is concerned, and I think a while ago that we have spoken about that topic, for a while also in Brazil there was some uncertainty on the tax treatment around energy, so therefore we had to wait for that to be clarified before we could pursue a sale. In the meantime, laws have been passed that will change the way or it makes clear how the energies are being taxed by users and producers, and it means that we’re currently in full swing to sell a number of the assets. That includes the biogas installations, but also still some energy plants are on our balance sheet, at least the entities that own those assets and a recent review of that process, we should expect that we will see progress around the divestment in the coming quarters.

Full year guidance I think for operations, absolutely that is it. We are consistent with that so when we mean profit we mean here net income operations, so the reference is the €105.1 million of 2012 to be precise.

As far as net debt is concerned, we don’t typically guide for a certain number. We always know that in the second half working capital comes down further so we will see the benefits from that as well as from the profit we will generate in the second half, so everything else being equal we will see a significant reduction of the current level of net debt.

Question – ING
I have three questions. First a detailed question. Last quarter or at the beginning of the year you said we see some improvement here and there in the Dutch commercial building segment without any orders, but you haven’t mentioned this subject in the report, so maybe another stagnation. Can you elaborate on that? With regard to water you speak about low utilisation. If you speak
about low utilisation and the market is not going to recover in that segment, is that the next target for restructuring looking at the decline in margins we are now seeing. My final question about the outlook, do I miss something if the second half year with regard to US Environmental Services, with regard to the restructuring coming in, your outlook is in fact in line with the first half year, slow development of 5% growing net profit from operations. Is there something which I do not understand that you are so cautious there?

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**Renier Vree**

As far as the Dutch buildings business is concerned, what we have said is that we expect our business to stabilised, so we see that our buildings business in the Netherlands is stabilised and it is because the market is improving significantly, but our service offer has changed. We are focusing on helping our clients to reduce the cost of owning a property, so it is really the build asset consultancy we are applying to our clients, and that is successful, so we apply our staff to different types of resources than the typical project management of new real estate.

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**Neil McArthur**

In general in the business that we’re in we have to match the supply with demand and as we look out quarters ahead we need to make sure that we’re ahead of the curve in making sure that we maintain the right level of utilisation across our organisation in every single global business line and every single OpCo. That is an on-going process. As Renier highlighted when we went through the results in water, particularly in water management, because of austerity we’re seeing less spending on water management both in the US and in Continental Europe and as a consequence of that.

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**Renier Vree**

On the question about the outlook, indeed first half year net income of operations up 5%, we guide for full year for a growth between 0 and 5% so that would indeed back the question other have mean. If you look at the second half year last year was a strong second half year, Q3 and Q4 were very good quarters. Currencies haven’t moved in the right direction now. Our activities in Brazil, activities in the UK are worth less Euros this year than before, that we have also to take into account. In that sense a repeat of our performance second half last year and also finding some offset for currency is basically what we would have to do to make the guidance come true.
Philip Scholte
What kind of restructuring charges do they expect in the second half and what would be the number for ‘14 then also related to the savings of the path that you aim to follow there. On the sale of biogas and energy plants, can you tell us what kind of book value is involved there? The third question, I’m a bit puzzled about continental Europe. We have seen the margin coming down. You stick to the amount of savings. You stick to the target. Is it really only the speeding up of costs that will do the job there?

Renier Vree
Well as far as the restructuring charges are concerned, as you have seen we spent 8.7 million in the first half of this year and given the on-going project in Europe we expect that a similar amount will also be spent in the second half of this year. That will mean in 2014 assuming that we can see the benefits from what we have done in Europe, the restructuring amounts will be significantly less than what we have seen in 2013, but I would find it too early to guide for a specific amount at this point in time.

On biogas, the book value we have in our books is for the overall assets in Brazil is €20 million.

Neil McArthur
I think I tried to answer that earlier to one of the questions which is, it is not just the acceleration of cost, but it is also the growth initiatives that we put in place in the second quarter, the five that I talked about, and also I have shown the early fruits of those growth initiatives with the four projects that we highlighted where the pan European model has allowed us to win work that we wouldn’t have, potentially won as individual operating companies. It is both going to be from growth initiative sand from acceleration of cost.

Renier Vree
Maybe one comment to add to that, if you think about it, by accelerating those cost actions we will know earlier how close we are to that 10% target, so that means if we find that with everything we do it is not enough and we have time to sharpen our pencils and achieve our objective then I think the 10% by Q4 next year.
Derek
What Renier said on the legal costs, a few million, is that the absolute amount or was that the increase you saw in I think probably...

Renier Vree
That was the increase Derek.

Derek
The second question is on Brazil and the situation in Chile, I am aware of the difference in languages but how possible is it to see more competition coming from other countries into Brazil, like you have seen in Chile for example. Your view would be helpful. On water, in Europe can you help me to remember more or less the revenue levels you have in water in Europe? Thanks.

Neil McArthur
Brazil we have a leading position as engineers and programme managers in Brazil, mainly focused on infrastructure, environment and our water. In terms of foreign competition in Brazil, most of it today is coming from larger American firms that want to enter the fast growing Brazilian market, where social infrastructure needs as Brazil moves from being an emerging to being a developing to being a developed nation, provides great growth opportunities. that is where we see the competition from more than any Spanish speaking player today, and that is something that we are confident that we have been able to deal with by having leading edge capabilities, differentiated capabilities, strong local presence, married with bringing the bets of ARCADIS, whether that is in water of environmental or what we do in terms of infrastructure in order to beat any competition in Brazil.

Renier Vree
The question of the revenues of water and continental Europe, we typically don’t give the full matrix of all business lines and regions. Nevertheless water makes up 15% of our global revenues of ARCADIS and for Europe it is not much different. It is slightly lower than that.
Question – KBN

On Brazil, we have all probably seen the mining CapEx being reduced. Last meeting you spoke a bit about the offset you can achieve by gaining market share in the public market. How is that progressing, how is that market developing also in line with the unrest we have seen in Brazil recently and also some other comments about emerging markets, for instance in China, because when you speak about emerging markets I hear a lot about South America, but very little about Asia, perhaps you can discuss how that is progressing.

Neil McArthur

It is very clear that in Brazil we started very strongly in the mining infrastructure business with ARCADIS Logos and we have looked at the opportunities for growth by serving those infrastructure needs about improved transportation, improved water facilities both with ETP with our acquisition and then building organically the capabilities in order to serve transportation needs in Brazil with projects now in Sao Paolo in the metro system. We believe that with the level of growth that we have demonstrated we are able to be agile and capture those market opportunities.

With our clients that we have in mining, we continue to see a pipeline of opportunities in following them with their global growth ambitions and we see opportunities for further expansions that they themselves are committing to in order to maintain the positions that they have. Some global players operating in Brazil, it is fair to say that they are looking to finish the projects that they are currently involved in and there is this hesitation of the next wave of major capital investments for non-Brazilian players in Brazil.

If we then flip to the emerging markets, in Asia, and I think Renier highlighted that when we went through segment by segment we see tremendous growth opportunities continuing in buildings in Asia. We see that back in underlying performance and EC Harris’ performance and Langdon and Seah’s performance in the Asian marketplace.

Question

Can you provide us with a split between private clients and public clients in Brazil and how has that developed in the last 12 months.
Renier Vree

Historically we were I would say 90% type in the private sector, as Neil explained that private sector continues to do well but the public sector is where the additional growth is coming from, so the split is now moving more towards a 75/25 type of development. Sometimes it is a bit grey because like the airport we are doing, we work for a private company that runs the airport, but behind it of course is the government, so in that sense we would consider it private but still the government in the background of some of those big projects.

Dieter Furniere – KBC Securities

Two small ones remaining, the first one was on just your normal CapEx you make. It seems that there was some kind of a step up in the second quarter, could you elaborate a bit on that and also maybe remind us what is roughly the target you have on a full year basis. Then my second question is on water in Asia, so you launched these activities. I was wondering you believe that you can penetrate that market organically and do you need further acquisitions to do that, so a bit more detail on what is going on with that activity. Thank you.

Renier Vree

…in the second quarter, for every three years we have to renew our license for the consolidation systems, we do it as a corporate, so we buy a three year license for the whole company worldwide, that is the most efficient way to do that which would then capitalise a write off over the three years that is being used, that is the reason why it was higher this quarter than you typically see that. Nevertheless for the full year I don’t expect that CapEx will differ much from the level of depreciation that we have.

Neil McArthur

Water in Asia as we have highlighted we put a small team on the ground there now in Asia. The opportunities that we see are built asset consultancy for public sector utilities in places like Singapore with public sector infrastructure and Hong Kong as well. Then in terms of the very large flood management, water management projects having a team in Asia close to the ground we will build over time access to those very large projects that over time we hope will come to market.
Dieter Furniere – KBC Securities

Especially on China, I understood that especially for roads and such, it is quite hard to work on government contracts. Do you see this difference when it comes down to water or environments, and do you see that you can maybe add more value or that they can do it internally?

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Neil McArthur

Let’s be very clear, we are focusing on public sector markets in the more western countries in Asia, such as Singapore. We are not focusing on public sector in China.

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Joost Slooten

We will go over to the next part of the presentation which will be done by Matthew Riley, global head of infrastructure, industry and utilities from EC Harris and Matt will be leading us through a presentation on ARCADIS in sustainable urban development. Matt the floor is yours. The slides are not numbered, but Matt will be calling out the next slide as he shows it.

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Matthew Riley

Thank you Joost. I just wanted to share with you today some observations on market opportunities we’re starting to see around big cities. I am here because being part of ARCADIS now gives me the ability to share and learn across cities with similar issues and to evaluate our value propositions for the benefit of our clients in those cities.

To move onto the slide around global trends we can see that the world is experiencing unprecedented shift towards urbanisation. The balance between rural and urban settlement is changing dramatically and finally you can see there that the population living in urban areas will shift from approximately 50% today to around 70% by 2050. This shift is placing unique demands on cities and our clients. Much like our multinational client programme ARCADIS sees big cities as key clients that offer a lot of opportunities to develop our value proposition. We can play a key role in assisting these cities with increasingly complex and ever larger challenges they face. Our special contribution can be that where we compare private sector and public sector issues to arrive at sustainable and successful outcomes. We’re starting to pilot this in London and a couple of US cities.

If we move onto the slide that shows the picture of London. I take London those of you may be aware we have a rather flamboyant mayor who recently announced 2020 vision to be very
modestly be the greatest city on earth. When you look beneath that you actually see a city that is a classic example of asset rich cash poor. It has got ageing infrastructure, it is Victorian in its architecture and its use, we have got a growing population, already at 8 million which has grown quite rapidly over the last 20 years and it is forecast to grow by another 20% to 10 million by 2030, so that starts to place issues around congestion, around infrastructure, it puts pressure on housing, education. You look at affordability, whether you’re a consumer or a taxpayer and also the uneven distribution of wealth even within the London accommodation, all at that at a time when we need to improve the quality of life.

Now on slide 37 where you look at where are ARCADIS active and what are we doing about it. Across buildings, infrastructure and water, you can see there a number of asset class examples, where if I look at aviation, we’re helping Heathrow Airport increase the capacity and the pitch of the new terminal that will be open on the 14th June next year. If you look at water again a piece of infrastructure where with private investors they have challenges in outperforming their regulatory contracts and we provide solutions there and in both examples we’re also putting together the investment plans and the delivery strategies for the next round of regulation. This against the background where the UK and London in particular needs to attract new investment and particularly foreign investment from the places like the Middle East and Asia, many of these are our clients in those regions. We have the opportunity not only to provide operational solutions but also to provide advice to investors on some of the choices and decisions they make. If we move across and look at prime residential and commercial use, there we dominate aspects of this. We cat for over 50% of schemes in London and particularly the three largest regeneration schemes of Earls Court, Chelsea Barracks and Middlesex Hospital.

Finally there on the right hand side just so you get reference to government education and health where through lean and efficient use of real estate, we’re not only driving out over 10% efficiency and operational costs, but probably more importantly we have helped release through land sales over 100 million of capital of receipts for the two London Burroughs of Camden and [unclear]. That money gets reinvested into public services.

Finally when you look at education and the challenges that government has only provided about a third of the investment requirement to meet the needs of education, so again we’re looking at the use of assets, we have identified examples or we have created examples already where we have taken empty retail units and turned them into educational facilities.

When we go to Chicago I look at what we do with ARCADIS, we have critical mass in that city, we have a mayor there who wants to maintain Chicago’s competitive advantage as a transportation
interchange for the nation. He also wants to be a leader in environmental sustainability. On slide 39 you will see across buildings and water there examples of where through our programme management, we’re providing environmental sustainability. We have developed and managed for the public building commission 58 of the city’s lead municipal buildings. As a result Chicago has over 69 municipally lead certified buildings more than any other city in the nation, where part of rebuilding Chicago’s social infrastructure, managing the Chicago public schools modern schools across Chicago programme of $1.5 billion. We’re managing the largest infrastructure programme in Chicago, $1.9 billion which ensures reliable water supply, and finally the building Chicago’s or some of Chicago’s iconic social institutions, the Art Institute’s $300 million modern wing and the 700 million Lurie hospitals.

When you look at New York, again a city there that has many parallels to London. It wants to retain its position as a financial leader in world markets. You have also got a mayor and a city that wants to be the best at everything, but beneath the bravado, I think you find some more sobering challenges and vision where they’re looking at pursuing resilience and sustainability to mitigate the effects of extreme weather and climate change, well actually those challenges exist in London. They are also looking at changing zoning to promote development and innovative use of city owned land, well actually so is London and looking to improve a service in reliability of utilities well again so is London.

There on slide 41 you can see across water, buildings and infrastructure where we’re providing solutions to our clients, healthcare we’re providing post Sandy, Hurricane Sandy called for ARCADIS expertise and in the example there we are providing full post sandy recovery services for four of the largest hospitals. On waste there we are providing project management and design to rebuild the waste water treatment plant, as well as five other waste water treatment plants and 32 pump stations. The other example I will point you towards on infrastructure is Manhattan’s water tunnel, a $5 billion scheme which is providing redundancy underneath the city of Manhattan. There are parallels there to London’s super sewer which is yet to be funded. We recently provided an independent risk analysis for funding purposes. The other big issue they have got in London is to minimise disruption, so again many parallels. You can begin to see by now that we’re starting to see the connectivity and the global collaboration we can bring in our value propositions for the benefits of our clients.

Let’s turn to Doha, somewhere a bit different. Investing enormous amounts of resource into diversification, education of its people and infrastructure, all towards creating a new economy to replace the dependency on its natural gas.
On slide 43 you will see across buildings and infrastructure, we’re helping Qatar to deliver towards its 2030 vision and more particularly towards the 2022 FIFA World Cup; we’re the only consultants on all major programmes in Qatar, managing in excess of $100 billion of construction. You can see one of the things that Middle Eastern clients look for that they use design standards from either Western Europe or US, so again the capability ARCADIS can bring to that arena, the asset spread is diverse, you can see from stadia, to rail, health and education and in fact one that is not on there you can even add now to it an air conditioned zoo that we will be delivering on behalf of one of the ministries. As bizarre as it is challenging you have got there ARCADIS we’re involved in the full breadth of activity and we’re now advising on logistics and how to maintain productivity and to keep Doha moving. There is no other consultant in this space other than ARCADIS.

Somewhere closer to home in Amsterdam and the picture there. As I have learnt more about Amsterdam and what is important to this economy, it is built around tourism and attracting international companies, well again for me I see parallels to London. On slide 45 there you can see across infrastructure and buildings the examples where ARCADIS is active. I will draw your attention to three issues that I find particularly relevant and interesting. When I look at finance, we have are involved in the Coen tunnel, a PPP (public private partnership) with Vinci and TBI, a five year construction programme and a 30 year maintenance contract. That consortium have taken the investment risk, it has increased mobility and providing a solution for government. It is a trend that is now starting to show itself in Europe as well, yet in the UK PPP has a bad name, so a model that is working here we can take those lessons back to London. The second one and for me I think is probably even more interesting is you look at the connectivity that Amsterdam brings to Europe, Schiphol has an unparalleled network in Europe, it has got five runways and you will be aware it is in competition with London, Frankfurt and Paris to be the number one European hub airport. With that route network comes business and tourism growth and particularly the route network into Asia. We are helping Amsterdam, Neil has already mentioned the framework at Zuidas and the infrastructure we have around us here. Amsterdam is a high quality environment, it is very accessible, I couldn’t believe yesterday that I stepped off the aircraft at 5 o’clock and within 20 minutes I was in our reception next door. London would die for that kind of accessibility. We’re spending $18 billion on a train track going under central London to improve connectivity by 15 minutes from one side to the other of London. That is the challenge in the infrastructure you have got. Here you have got that connectivity, you have got the accessibility, and if we had a commercial development like this we would be marketing the hell out of it to foreign companies and multinational clients. Again, the lessons we can bring and help the government of Amsterdam to stimulate and regenerate regions of Amsterdam I think is
fascinating and you have got a great asset there, the airport and the transportation infrastructure that is hugely powerful.

The final one is very much taking up value propositions from the UK and helping government in Amsterdam to use their real estate more efficiently and effectively, but much in the same way as it did in the UK.

Moving across to Sao Paolo, what we can say about Sao Paolo other than the need to improve the quality of life is a huge driver. As we move onto slide 47 you can see across all our business lines buildings, water, infrastructure and environment we’re active and particularly if I just draw your attention to a couple. We have already mentioned and made reference to [unclear] there and sanitation and the access to market that gives us, where over 40% of Brazil’s population has yet to be connected to any form of sanitation. In aviation the collaboration between ARCADIS Logos and EC Harris has already resulted in two significant wins, but it is also probably more importantly the start of an investment programme right across all of Brazil’s airports and we’re at the forefront of that activity. You stand back and look at Brazil and particularly Rio, Sao Paolo where they're looking to invest $100 billion in infrastructure ports and logistics alone but they need private investment to deliver most of that activity. That investments, some of that will come the Middle and East Asia, those investors will be part of the solution and again here our value proposition is not just in delivery but also in supporting those potential investors because they are clients of ours elsewhere.

Finally moving onto Singapore, slide 48 here again we have got a city wanting to be the leading global city in Asia, truly entrepreneurial, innovative and the best home, another form of competitive advantage. Slide 49 you can see across buildings and infrastructure where we’re active, we have a diverse range of sector knowledge, leisure, commercial, mixed, tolls, bridges health etc. all built from strong local relationships which provide an entry point for global capability and prove track record. I see this diverse sector knowledge and with the access particularly to a lender and investor community, we see even more opportunity for ARCADIS to develop our value proposition to bring solutions to the complex problems being faced by our clients.

Question

Comparing the situation when you were on yourself at EC Harris and now within ARCADIS, what is bringing the difference? Is it really bringing in actual work? To what extent can you do more at a higher level than you could before when you were at EC Harris?
Matthew Riley
I will give you a recent anecdote to answer that question because it is relevant. I was in the Middle East last week visiting the chairman of particular road and transport authority who knew us as EC Harris, hadn’t worked with us for three or four years and the first slide I put up was to show the change in ownership and the power of ARCADIS and the fact that we have got a 22,000 person organisation and access to capability that that brings beyond the project management and cost management capability. Within two minutes, he stopped the meeting, he just went wow I didn’t know that, called in his contracts director and ARCADIS are now registered across all asset classes in that particular country which as EC Harris we weren’t literally before I walked into the meeting.

That is not uncommon in terms of both scale, balance sheet, those are the two earliest examples. As we now start to integrate the capability and create value propositions, not just from our core capability of programme management, but also really going upfront and creating management consulting solutions [unclear] the consultancy, the engineering and the project management really is now starting to take us into a much more powerful place with our clients.

Question
And the other way around, for ARCADIS?

Neil McArthur
Let me answer that again with an example. One of the projects that we have talked about before is the expansion of Sao Paolo Airport for the world cup; it needs to be ready April/May next year. We have a leading position in Brazil with ARCADIS Logos in project and programme management, but by bringing the market sector knowledge and expertise from EC Harris around aviation and around large scale airports and the track record of having had British airports authority as a longstanding client having done the programme management for the delivery of terminal five on schedule and saving BAA £200 million on a 2 billion investment, bringing those two sets of capabilities together we had a winning value proposition to do the programme management for the expansion of Sao Paolo airport, and that is just one example of many synergy opportunities that we have now created around the globe through the combination, not just with EC Harris and ARCADIS but also EC Harris, RTKL, Langdon and Seah and legacy ARCADIS capabilities everywhere in the world.
Question
Brazil?

Renier Vree
I think if you look at Brazil, the situation is quite different from Singapore. There is a lot of emphasis to make big projects happen. It is a proud country which I think in the last couple of years has shown that it is going to reach its potential and in terms of the government I think the government made a change in the last years by being willing to outsource what activities in the past done by the government now to the private sector. That is beneficial to us as a company. The preparation of projects, the project management is not [unclear] civil servants done by companies on behalf of the government.

Question
You have given seven examples I would say that maybe China is the most challenging or the most challenging cities like shanghai or Beijing, is there a reason for you not to be so outspoken about these big cities or is that because there is some lack of knowledge from ARCADIS.

Neil McArthur
We’re keen on big cities in Asia. It is one of the reasons that Langdon and Seah was an attractive merger partner for us also EC Harris with their footprint across Asia and in China. We see the mega cities that are evolving in China as a major opportunity for us. Tier 3 cities now start at around 3-5 million in China, which means that if you put it into perspective our US headquarters are in Denver, if you take the total Denver metropolitan area I think I am right in saying it is about 2.5/3 million, so Denver would just make it to be a third tier city in China. If you think of all of the value propositions that we can provide to a city like Denver across our four global business lines, over time we will be able to build those capabilities to serve more effectively those cities in China. We have a great footprint today with Langdon and Seah and EC Harris and RTKL and we’re very focused on building more capability in China.

Question
It is not like a city like London or New York in the 19th Century it is more attractive for you in terms of the complicated work you have to execute compared to where it is in some area of nothing.
Neil McArthur
I would argue that the sophistication of what you see being built and you saw the pictures of Doha that is world class in terms of the infrastructure and the buildings that is being designed and built in places that are developing cities, and exactly the same is true for Asia in as well.

Joost Slooten
Thank you very much. In that case then this concludes the Q&A part of the presentation on ARCADIS’ position in sustainable urban development. We thank you all online for attending we thank you in the room for attending as well and we look forward to speaking with you again at the presentation of our third quarter results. Thank you very much.