ARCADIS N V
Form 20-F
June 22, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

o SHELL COMPANY PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 0-22628

ARCADIS N.V.

(Exact name of Registrant as specified in its charter)

ARCADIS N.V.

(Translation of Registrant s name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

Nieuwe Stationsstraat 10, Arnhem, the Netherlands

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: **None.**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

COMMON STOCK, 0.05 NOMINAL VALUE, PER SHARE

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None.**

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by this annual report:

20,645,615 SHARES OF COMMON SHARES, 0.05 NOMINAL VALUE

200 PRIORITY SHARES, 0.05 NOMINAL VALUE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act). (Check one): Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 x Item 18

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report, and documents incorporated by reference into this report, include forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These statements are based on the beliefs and assumptions of management and on information available to management at the time such statements were made. Forward-looking statements include information concerning possible or assumed future results of operations, earnings, liquidity, cash flow and capital expenditures, industry or market conditions, assets under management, acquisition activities and the effect of completed acquisitions, debt levels and the ability to obtain additional financing or make payments on our debt, regulatory developments, demand for and pricing of our services and other aspects of its business, general economic conditions and statements that, in each case, are preceded by, followed by, or include words such as believes, expects, anticipates, intends, pla estimates, may, could, should, would or similar expressions.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although we make such statements based on assumptions we believe to be reasonable, our actual results may differ materially from expectations. Many of the factors that will determine these results are beyond our ability to control or predict. We do not intend to review or revise any particular forward-looking statements made or incorporated by reference in this Form 20-F in light of future events, except as otherwise required by law. Investors are cautioned not to rely unduly on any forward-looking statements.

The following important risk factors, and other important factors described elsewhere in this report or in our other filings with the Securities and Exchange Commission, among others, could cause our results to differ from any results that we may project, forecast, or estimate in any forward-looking statements:

- cyclical downturns in the economy could have negative effect on investments by private companies in new investments;
- decreased tax revenues may limit the ability of governments to invest in the types of public works for which we are engaged;
- changes in legislation, regulation and political priorities may weaken demand for our services;
- changes in bidding procedures of our clients may put competitive pressures on the amounts we can charge for our services;
- inaccurate estimates of the time or cost of a project may result in project losses;
- malfunctions in our information and communications technology may adversely affect our operations;
- difficulties with the integration of acquired businesses may distract the attention of our management and adversely affect our operations; and
- declines in the exchange rates of non-Euro countries may reduce the value of our assets.

PRESENTATION OF CERTAIN INFORMATION

Unless the context requires otherwise (1) references to ARCADIS, we, us and our refer to ARCADIS N.V. and its consolidated subsidiaries, (2) references to the Netherlands are to The Kingdom of the Netherlands, (3) references to United States or U.S. are to the United States of America, (4) references to Euros, EUR and are to the currency of the 12 European Union member states (including the Netherlands) participating in European Monetary Union, and (5) references to dollars or $ are to the currency of the United States.

PART 1

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

ITEM 3. KEY INFORMATION

A. *Selected financial data*

The selected consolidated financial data presented below as of and for each of the two years during the period ended December 31, 2005 have been derived from our audited Consolidated Financial Statements which have been prepared in accordance with International Financial Reporting Standards, or IFRS, and the interpretations of IFRS adopted by the International Accounting Standards Board. The fiscal year ending December 31, 2005 is the first year in which ARCADIS prepared its financial statements in accordance with IFRS. Previously, ARCADIS prepared its financial statements in accordance with accounting principles generally accepted in the Netherlands (Dutch GAAP). The selected consolidated financial data below should be read in conjunction with our Consolidated Financial Statements and the Notes set forth in Item 18 of this annual report.

For the convenience of the reader, the amounts reflected in our selected consolidated financial data as of and for the year ending December 31, 2005 as presented in Euros have been translated into U.S. dollars. The exchange rate used is $1.00 = 0.84767, the exchange rate as of December 31, 2005. We do not represent that the translated amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated or at any other rate.

IFRS differs in certain significant respects from accounting principles generally accepted in the United States (U.S. GAAP). See our reconciliation of IFRS to U.S. GAAP in Note 18 to our Consolidated Financial Statements.

	For the years ended December 31,		
	2005	**2005**	**2004**
	$		
	(in millions, except per share amounts)		
Consolidated Statement of Income Data			
Amounts in accordance with IFRS			
Gross revenue	1,181.0	1,001.1	900.8
Net revenue	829.6	703.3	632.5
Operating income	64.2	54.4	35.5
Income from operations before taxes	62.0	52.5	32.1
Income from operations after taxes	41.5	35.2	21.7
Group income from operations after taxes	43.2	36.6	24.1
Net income	39.4	33.4	22.2
Basic net income per common share(d)	1.95	1.65	1.10
Diluted net income per common share(d)	1.89	1.60	1.09
Average number of shares	20.3	20.3	20.1
Dividend per common share(a)	0.78	0.66	0.48

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	For the years ended December 31,					
	2005	2005	2004	2003	2002	2001
	$					
	(in millions, except per share amounts)					
Consolidated Statement of Income Data						
Amounts in accordance with U.S. GAAP						
Gross revenue(b)	1,092.3	925.9	815.9	776.2	754.3	739.6
Net revenue(b)	801.3	679.2	583.6	555.9	543.8	532.5
Operating income(b)	53.0	44.9	22.1	33.7	38.4	39.7
Income from operations before taxes	50.8	43.1	18.6	30.9	36.1	37.9
Income from operations after taxes	32.1	27.2	11.2	19.1	22.6	23.2
Net income(c)	33.2	28.1	15.0	22.6	23.3	24.5
Basic net income per common share(d)	1.64	1.39	0.75	1.13	1.16	1.21
Diluted net income per common share(d)	1.59	1.35	0.74	1.13	1.15	1.20

	For the years ended December 31,		
	2005	2005	2004
	$		
	(in millions, except per share amounts)		
Consolidated Balance Sheet Data			
Amounts in accordance with IFRS			
Total assets	767.0	650.1	442.3
Long-term debt	137.0	116.1	13.0
Common stock	1.2	1.0	1.0
Shareholders equity	207.9	176.2	136.4

	As of December 31,					
	2005	2005	2004	2003	2002	2001
	$					
	(in millions)					
Consolidated Balance Sheet Data						
Amounts in accordance with U.S. GAAP						
Total assets	891.1	755.4	441.0	348.6	365.2	396.4
Long-term debt	128.4	108.9	13.0	29.7	27.6	22.0
Shareholders equity	309.1	262.0	158.3	173.3	162.9	228.3

(a) Dividend per common share represents the amount relating to each year in which a dividend payment is approved and paid in the following year. The dividend per common share in U.S. dollars is: $0.78 in 2005 and $0.63 in 2004. The dividend payment of 0.66 per outstanding share of common stock for the year ended December 31, 2005, was presented to and approved by our shareholders at the Annual General Meeting of Shareholders on May 17, 2006.

(b) Gross revenue, net revenue and operating income as reported in accordance with U.S. GAAP are presented excluding the 50% revenues or income from the proportionally consolidated companies Grupo EP S.A. and ARCADIS Aqumen Facility Management B.V. and excluding the 33% revenues or income from the proportionally consolidated company Biogas SA. As of mid-June 2005, our 50% interest in Grupo EP S.A. was divested.

(c) Net income in 2001 of 25.1 million, includes the gain on the sale of the non-consolidated participation in Analytico of 4.0 million (0.20 per share) and the charge related to the restructuring of our property valuation activities in the Netherlands of 2.0 million (0.10 per share).

(d) Basic net income per common share calculated in accordance with IFRS and U.S. GAAP is based upon the weighted average number of common shares outstanding during the periods indicated. Diluted net income per common share calculated in accordance with IFRS and U.S. GAAP is based upon the weighted average number of the common shares outstanding during the periods indicated plus the dilutive effect of potential common shares outstanding during the periods indicated.

Exchange Rate Information

On June 20, 2006, the exchange rate between the Euro and U.S. dollar was 0.79707 per $1.00. The following tables set forth, for the periods and dates indicated, information regarding the exchange rate for the Euro expressed in Euros per $1.00. The rates used for the tables are based on quotes from the Amsterdam Foreign Exchange.

Period	High	Low	Average(1)	End
Year ended December 31, 2005	0.86	0.74	0.81	0.85
Year ended December 31, 2004	0.85	0.73	0.80	0.73
Year ended December 31, 2003	0.96	0.79	0.88	0.79
Year ended December 31, 2002	1.17	1.06	1.06	0.95
Year ended December 31, 2001	1.19	1.05	1.12	1.13

(1) Average of the exchange rates on the last day of each month during the year presented.

Period	High	Low
May 2006	0.79	0.77
April 2006	0.83	0.80
March 2006	0.84	0.82
February 2006	0.84	0.83
January 2006	0.85	0.81
December 2005	0.85	0.83

B. *Capitalization and indebtedness.*

Not applicable.

C. *Reasons for the offer and use of proceeds.*

Not applicable.

D. *Risk factors.*

Our risks can be generally categorized into market, operational, financial, and other risks.

Market Risks

Decreases in government tax revenues, which support large public works projects, could weaken demand for our services.

Approximately 45% of our revenue is derived from clients in the public sector. These clients rely on tax revenues to fund large public works projects of the type for which we are often retained. During an economic downturn, governmental entities collect significantly less tax revenues and often try to limit discretionary expenditures to balance their budgets. Government limits on spending in regard to environmental remediation,

infrastructure expansion or enhancement, building projects, real estate data services or telecommunications infrastructure investments, could have a material adverse effect on our ability to attract and/or retain business.

A global recession could have an adverse affect on our revenues.

Approximately 55% of our revenue is derived from our private sector clients. As a result, we are exposed to general economic cycles which influence the willingness and ability of private sector firms to invest in the types of activities that require our services. Private sector clients experiencing adverse economic conditions may attempt to defer or withdraw from signed contracts, which could have a material adverse effect on our revenues. Our facilities service area, where most investments are from private sector companies, is the most sensitive to declines in economic activity.

A decline in the financial markets may adversely affect our revenue.

A sharp decline in the capital markets can have a negative effect on companies abilities to invest. In the past this happened in the telecommunications area, where investment declined considerably in a very short period, resulting in a substantial decrease in our revenue in the communications area for a number of years.

Changes in the political priorities in the countries in which we operate could adversely affect public spending on the services that we provide.

Changes in political priorities can considerably influence public spending and, therefore, impact spending on the services we provide. Projects for which we are well positioned may be canceled or deferred. Elections can result in shifts in political relationships leading to delays in the awarding of new contracts. The infrastructure area is the most sensitive to this risk.

Changes to existing regulations and new legislation and/or regulations, could weaken demand for our services.

We believe that demand for our principal environmental services is in part related to the response of governmental authorities to the public s concern for environmental issues. If, however, public concern for environmental issues changes, or governmental entities in countries where we operate become less responsive to environmental issues, there could be substantially less demand for our environmental services, which could have a material adverse effect on our business. Changes in regulations and legislation may also negatively affect certain other areas of our business, such as the infrastructure and facilities activities when it comes to substantial changes in building codes and/or environmental requirements related to such projects.

Political instability in the countries in which we operate can result in contracts being canceled or harm our employees.

As a result of political instability, contracts may be terminated or abandoned or the security of our employees may be at risk, resulting in contract work being stopped temporarily or permanently. This risk arises particularly in the donor-financed market, which is primarily the market for development projects, generally financed by non-governmental organizations such as the World Bank or regional development banks, in which we achieve only a limited part of our revenues.

Changes in the bidding behavior of our clients may result in competitive pricing pressure for our services.

Changes in the bidding pattern of clients can have a considerable effect on our revenue. Due to European Union regulations, a trend is developing in a number of countries to a more open bidding process where price competition is more important. Centralization and strengthening of the purchasing function in large companies may also affect our opportunities to secure profitable revenues. Changes in behavior of our clients or our potential clients may have a negative impact on our revenues.

Concentration through mergers, acquisitions or other forms of consolidation may lead to increased purchasing power on the part of our clients.

With the concentration of companies, clients may disappear, and the purchasing power of customers can increase, resulting in potential decreases in our revenue. The same phenomenon can occur with the government. The combination of municipalities and water boards results in fewer, but more powerful, administrative units that, in a number of cases, now conduct activities that were formerly put out to bid.

Operational Risks

The services we provide can result in considerable liability to us which we may not be able to insure against.

The services we provide are associated with considerable liability risks. These risks can arise from errors in executing activities such as design or calculation errors, incorrect estimates of contamination, not meeting agreed schedules, exceeding cost estimates and implementing budgets, not complying with legislation and regulations, or omissions in quality guarantees that have been given. To protect against these risks we have obtained general and professional liability insurance policies. These policies cover errors and omissions in the executing of projects and provide insurance against possible claims that arise during the coverage period. If the insurance carrier does not renew coverage at the end of the policy term and we are unable to obtain replacement insurance with retroactive coverage, it is possible that claims will be denied even though the claims are related to events or actions that occurred while coverage existed. Because insurance policies contain certain exclusions and have a maximum amount per claim, not all risks are covered. Additionally, our insurance carriers may not be able to meet their obligations.

We may incur losses because we underestimate the time or the cost to complete a project.

Depending on the type of contract, losses can occur in projects as a result of inaccurate time and cost estimates, new techniques with undocumented cost and performance results, inexperienced staff, performance delays, additional consulting services, the absence of information that was assumed would be available, or other unforeseen circumstances. Although many contracts also contain conditions regarding payment of additional costs in the event of unforeseen circumstances, substantial project losses may occur, which may have a negative effect on our results of operations.

If we underutilize our permanent employees, our profitability may be negatively affected.

Many of our employees are permanently employed by us to retain their talent. If we are not able to charge our clients for services performed by these employees or if we are not able to charge our clients at the rates we have set for their services, our profitability could be negatively affected.

If our partners fail to perform their contractual obligations on a project, we could be exposed to legal liability, loss of reputation and reduced profit or loss on the project.

We account for investments in joint ventures using the proportionate method of consolidation, whereby our share of all assets, liabilities, revenues and expenses of the joint venture are included in our consolidated financial statements. Approximately 30% of our gross revenue is derived from work that is not performed by our own staff, but derived from subcontracting or other arrangements. Success on these joint projects depends in large part on whether our partners fulfill their contractual obligations satisfactorily. If any of our partners fails to satisfactorily perform their contractual obligations as a result of financial or other difficulties, we may be required to make additional investments and provide additional services in order to make up for our partner s shortfall. If we are unable to adequately address our partner s performance issues, then our client could terminate the joint project, exposing us to legal liability, loss of reputation and risk of loss or reduced profit on the project.

The refusal or inability of our clients to timely pay for services we provide to them could cause us to have insufficient liquidity.

We usually invoice clients for our services according to the progress of the work. If our clients refuse or are unable to meet their contractual payment obligations, we may not have sufficient cash to satisfy our liabilities, and our growth rate and continued operations could be adversely impacted.

If we are unable to accurately estimate the overall risks, revenues or costs on a contract, we may incur a lower profit or loss on the contract.

Some of the contracts we enter into with our clients have a fixed price or a cap. Under cost-plus contracts that have a cap, we are reimbursed for allowable costs and fees, which may be fixed or performance-based. If our costs exceed the contract cap or are not allowable under the provisions of the contract or any applicable regulations, we may not be able to obtain reimbursement for all such costs. Under fixed-price contracts, we receive a fixed price irrespective of the actual costs we incur and consequently, we will realize a profit on the fixed-price contract only if we can control our costs and prevent cost over-runs on the contract.

When we enter into turnkey contracts and Design, Build, Finance and Operate (DBFO) contracts, we face risks beyond those normally associated with our business relationships and contracts.

Due to the nature of turnkey contracts and DBFO contracts, we take on additional responsibilities, such as providing engineering and construction services, and arranging financing, that go beyond the responsibilities normally associated with our business relationships and contracts. In particular, in turnkey contracts, we face additional financial risks because of the size of these contracts, and the fact that many of the contracting services in these contracts are performed by third parties, who may not complete performance on a timely basis. In DBFO contracts, we may have an equity interest in the project, which causes us to have substantially more risk. We may face substantial decreases in our revenues if we are unable to meet our obligations under either of these types of contracts.

If our information and communication technology systems do not work properly, our operations and management may be negatively affected.

Our operation and management are largely dependent on the use of information and communication technology systems. Limited access and/or the malfunctioning of these systems, including both hardware and software, can negatively affect our operations and management. Our security and backup measures may not be sufficient to protect the integrity of our systems or to ensure that important data is not lost.

If we are unable to productively use leased office space, our operating results may be negatively affected.

We usually lease office space for periods from five to ten years. A downturn in activities may leave us with unused office space which we may not be able to sublet.

Failure to integrate acquired businesses or assets successfully will prevent us from achieving the anticipated cost savings and other financial benefits from our acquisitions.

We have completed 17 acquisitions in the past three years and we will continue to pursue growth through selective strategic acquisitions of businesses and assets. However, we will only achieve the efficiencies, cost reductions and other financial benefits, such as diversification of our current portfolio of clients and services, which we would expect to result from these acquisitions, if we successfully integrate the administrative, financial, technical and marketing organizations of acquired businesses and assets, and implement appropriate operations, financial and management systems and controls. We may have insufficient management resources to accomplish integrations, and even if we are able to do so successfully, we may not realize the level of cost savings and other financial benefits that we expected to achieve.

The integration of acquired operations with our own involves a number of risks, including:

- the disruption of our business and the diversion of our management s attention from other business concerns;
- unanticipated expenses related to integration;
- the potential failure to realize anticipated revenue opportunities associated with acquisitions;
- the possible loss of our key professional employees or those of the acquired businesses;
- the potential failure to replicate our operating efficiencies in the acquired businesses operations;
- our increased complexity and diversity compared to our operations prior to an acquisition;
- the possible negative reaction of clients to any acquisitions; and
- unanticipated problems or legal liabilities, including responsibility as a successor-in-interest for undisclosed or contingent liabilities of acquired businesses or assets.

Financial Risks

Our international operations expose us to significant currency risk.

We do a substantial amount of business in countries that do not use the Euro as their functional currency. The currencies in these countries may fluctuate in value against the Euro over time. Declines in the value of these currencies as measured against the Euro could result in a reduction in the value, as reflected on our balance sheet, of our assets.

The seasonality of our business may cause our revenues and earnings to fluctuate, adversely affecting the price of our stock.

Our results may fluctuate seasonally and over longer periods of time. Some of the factors that contribute to such fluctuations include: (1) the number of working days available and the number of our employees on leave, (2) the manner in which our public sector clients allocate tax revenues, (3) the weather, which may limit the amount of time our professionals have in the field.

Fluctuations in our working capital and any substantial acquisition we may make may cause us to violate obligations under our short-term credit facility and other financing arrangements.

As of December 31, 2005, we had borrowed 2.1 million under our short-term credit facility and had a total of 258 million available at year-end. Fluctuations in our working capital, which includes our work in progress and trade receivables less accounts payable, may cause us to exceed the limits of our financing arrangements. This may cause us to violate the covenants and obligations under our short-term credit facility. Additionally, if we make any substantial acquisitions, our borrowings under the credit facility may increase and we may violate our financing arrangements.

Other Risks

The loss of our experienced employees could adversely affect revenue and results.

Our success is, largely, dependent on attracting and keeping good employees. If for any reason we are not able to recruit enough people with the necessary expertise and skills from the employment market, or retain them,

our revenue and result could be adversely affected. The departure of experienced employees to competitors or self-employment can be accompanied by the loss of clients and lead to a loss of work for us.

Any damage to our reputation may lead to ARCADIS being excluded from certain bidding processes.

Any damage to our reputation and name, such as by breaches of our code of conduct by our employees, among other events, may harm our reputation. Such damage could cause us to lose business or not be eligible to bid for business in certain industries and regions.

ITEM 4. INFORMATION ON THE COMPANY

A. *History and development of the company.*

Introduction

We are an international company that delivers consulting, engineering and project management services in the areas of infrastructure, environment and facilities. ARCADIS N.V. is a public company organized on August 16, 1982 under the laws of The Kingdom of the Netherlands. Our initial predecessor was incorporated in the Netherlands in 1888 under the name Nederlandsche Heidemaatschappij. Most of our commercial activities are undertaken under the trade name ARCADIS. In some countries, we operate under different legal or commercial names for local competitive reasons.

Our principal office is located at: Nieuwe Stationsstraat 10, 6811 KS Arnhem, the Netherlands and our telephone number at that address is 31-26-3778911. Our principal office in the United States is located at: 630 Plaza Drive, Suite 200, Highlands Ranch, Colorado 80126-2377 and our telephone number at that address is 720-344-3500.

Strategy and Strategic Developments

Since mid-2000, our strategy has been focused on the expansion of our position in our existing markets in Europe and North and South America. Our strategy concentrates on strengthening profitable growth in these geographic markets. This strategy has four cornerstones:

- Focus on activities with greater added value and higher margins;
- Organic growth in the existing core activities;
- Margin improvements; and
- Acquisitions.

Following is a brief description of the progress made in each of these areas in 2005.

Focus on activities with greater added value and higher margins

In 2005, we further adjusted our portfolio. Activities with limited added value and lower margins were sold and replaced by consultancy and management services that generate higher added value and considerably higher margins. We added approximately 200 million in gross revenues through acquisitions in 2005, compared against the sale of businesses with 100 million in gross revenue. The most important acquisitions include Blasland, Bouck & Lee, Inc. (BBL) in the United States and AYH plc in the United Kingdom. With BBL, we gain a leading position in the environmental market, while AYH fits the transition occurring in the facilities service area from engineering to management services. Both companies are active in growth markets, having considerably higher margins than our average and offer abundant opportunities for synergy. These acquisitions have changed our profile and serve to strengthen our strategic positioning.

Solid organic growth in core activities

Organic growth represents the growth in our gross revenue that we are able to generate from year to year in our existing, non-acquired businesses, excluding exchange rate differences. In 2005, our organic growth was 5%, which was essentially the same as in 2004. We believe that we can improve our organic growth rate by better utilizing our internal knowledge base to provide opportunities, such as with respect to our remediation and GRiP® program in the United States, our rail and water management expertise in the Netherlands, our bridge and tunnel experience in France, as well as expanding our relations with existing multinational clients.

Margin goal achieved

Margin improvement is a key component of our corporate strategy introduced in 2000. By margin, we mean operating income excluding amortization of identifiable intangible assets (which we also refer to as EBITA), as a percentage of net revenue, which is the portion of revenue produced by our own employees. Excluding items that affect the comparability of results, such as the sale of non-core activities in the Netherlands and a restructuring charge in 2004, as well as a book gain on divestments including the sale of our 50% interest in Grupo EP in Spain and adjustments to pension plans, the margin increased to 8.2%, compared to 6.2% in 2004. Three factors have contributed to this improvement: acquisitions/divestments in which less profitable activities were replaced by higher margin activities, the positive effects of the restructuring in the Netherlands in 2004 and increased utilization rates combined with favorable market conditions.

Acquisitions

Acquisitions remain an important cornerstone of our strategy. The purpose of acquisitions is to further strengthen our home market portfolios. We have the following financial criteria for all of our acquisitions:

- They are accretive to earnings per share;
- The margin is equal to or higher than the ARCADIS margin; and
- They produce a return on investment of 15% or more.

In 2005, we acquired the following four companies, all of which met our financial criteria:

Name	**Country**	**Employees**	**Gross revenue(1) (in millions)**	**Month consolidated**
SWK NV	Belgium	50	6	May 2005
AYH, plc	United Kingdom	340	36	June 2005
Greystone Environmental Consultants, Inc.	United States	130	12	June 2005
Blasland, Bouck & Lee, Inc.	United States	900	142	September 2005
Total		**1420**	**196**	

(1) Gross revenue mentioned above indicates the gross revenue of each entity for the last full fiscal year of the respective entity prior to its acquisition by ARCADIS.

With the acquisition of *SWK*, Belgian activities were strengthened geographically, as well as in heavy infrastructure. The acquisition of *AYH* in the United Kingdom, specializing in project management, cost control and consultancy for real estate projects, fits the transition occurring in the facilities service area and strengthens our position the United Kingdom. *Greystone* is an important addition to the American environmental market, bringing expertise particularly in permitting. *Blasland, Bouck & Lee*, specializing in environmental services and soil remediation, considerably strengthens our position in the environmental market, not only in the United States, but globally.

The total investment in acquisitions in 2005 was 121 million, which resulted in additional goodwill of 61 million. A goodwill amount of 2.8 million is expected to be deductible for tax purposes. The goodwill in 2005 was assigned to our geographic segments as follows (in millions):

The Netherlands	0
United States	44
Other European Countries	16
Rest of World(1)	1
Total goodwill	61

(1) The geographic segment Rest of World includes all countries outside of our three primary reporting segments, the Netherlands, the United States and Other Europe Countries.

Of the 121 million invested in acquisitions in 2005, up to 27 million will be paid after 2006.

In 2005, we completed the following divestments:

Name	**Country**	**Employees**	**Gross revenue (in millions)**	**Month divested**
Detailed engineering in buildings	United States	160	15	April 2005
50% interest in Grupo EP SA	Spain	1,700 (1)	135 (1)	June 2005
Renardet/Sauti SA	Donor market (2)	240	11	June 2005
Total divestments		**2,100**	**94**	

(1) Based on 100%; gross revenue was consolidated 50%, the number of employees for 100%.

(2) The Donor market includes the following regions: Africa, Latin and Central America, Southeast Asia, and Eastern Europe.

In light of the transition in the facilities service area to activities with higher added value, the detailed engineering activities for buildings in the United States was sold. With no prospect of gaining a majority interest, we sold our 50% interest in Grupo EP to management and employees who already owned the other 50%. The company had been proportionally consolidated in our operating results, and in 2004 contributed less than 5% to our total net income from operations. However, our good relationship with Grupo EP continues through a cooperation

agreement. At the end of June, our interests in two smaller companies with activities in the donor-financed market were sold.

Revised strategy

The biennial review of our strategy was completed in mid-2005. The revised strategy, titled *Choices for growth*, continues the course of profitable growth in home markets, which was introduced in mid-2000. The revised strategy introduces a strategic vision for each of the three service areas in which we are active. This vision is based on a portfolio analysis by service area in which market attractiveness and our competitive position were weighed for each activity. In addition, an analysis of strengths and weaknesses was completed by service area and for ARCADIS as a whole.

Goals by service area were formulated for the next three to five years. The goals were translated into tangible plans for goal realization. As part of this process, transnational growth platforms were initiated, aimed at bundling our strengths in areas where the market offers good prospects and we are strong. The transnational growth platforms are made up of groups of employees who are strategically focused on the following areas: rail, tunnels and bridges, environment and worldwide project consulting. This process strengthens the horizontal lines in the company, offering prospects for additional growth in specific sectors. Further details are provided in the following sections on service areas.

The three core elements of the revised strategy can be summarized as follows:

Strengthening organic growth in the three service areas by:

- Using transnational growth platforms for specific sections;
- Expanding local positions in home markets; and
- Promoting innovations aimed at developing new products and services.

Continually improving margin by:

- Focusing on services with higher added value; and
- Outsourcing detailed engineering.

Expanding through acquisitions aimed at:

- Strengthening home markets and/or adding specific expertise; and
- Building a position in Asia.

Financial goals

We maintain the following unchanged financial goals for the mid to long term:

- Gross revenue: average annual growth of 10% or more, half of which is organic.
- Operational margin: 8% (operating income excluding amortization of identifiable intangible assets (which we also refer to as EBITA) as a percentage of net revenue).
- Earnings per share: average annual growth of 10% or more.
- Return on invested capital of 15% or more. This is net income from operations, excluding interest charges, compared to shareholders equity plus net interest-bearing debt, calculated as an average over four quarters.

The goals listed above are excluding the effects of currency exchange rate differences. Net income from operations is before amortization and other items that we believe affect the comparability of results, like book gains.

Below are the results of previous years compared to the above goals, excluding currency effects**.**

	Goal	2000	2001	2002	2003	2004(1)	2005(1)
Gross revenue	10%	13%	3%	6%	10%	9%(2)	10%(2)
Organic	5%	7%	3%	2%	1%	5%	5%
Acquisitions	5%	6%	0%	4%	9%	4%	5%
Operational margin	8%	6.4%	6.9%	7.4%	6.0%	6.2%(3)	8.2%(3)
Earnings per share	10%	10%	10%	11%	(4)%	9%	40%
Return on invested capital	15%	14.8%	17.6%	18.8%	15.9%	17.2%	20.6%

(1) Results based on IFRS.

(2) Excluding book profit on sales.

(3) Excluding items that impact the comparability of results.

B. *Business overview.*

Development by Service Area

We provide consulting and engineering services in four principal geographic reporting segments: the Netherlands, the United States, other European countries, and Rest of World. Our primary services areas in each of these geographic segments are infrastructure, environment, and facilities. Below is a further detailing of the activities of the company in each of these three service areas:

Infrastructure

Our infrastructure area is focused on designing physical living environments for living, working, and recreational activities, as well as connecting these areas through highways, railroads, and waterways. We are engaged in infrastructure activities in all of our geographic reporting segments. Water management, infrastructure development for the energy sector and telecommunications activities are also a component of this service area. This service area s share of total gross revenue was 526 million, 501 million, and 485 million in 2005, 2004 and 2003, respectively, and accounted for 53%, 56% and 57% of our total gross revenue in those years, respectively.

The infrastructure market is dominated by public sector spending. We have strong local positions in this market. Our knowledge of local conditions and our long-term client relationships allow us to anticipate new developments and offer tailor-made services. From a broad range of multidisciplinary services, we offer integrated solutions for complex infrastructural challenges. In a number of areas, we have specialized expertise. Our rail infrastructure experience is based on years of working on the Dutch railway network, one of the most densely traveled and safest networks in the world. A prime example of our expertise in bridges is the world-famous Millau Viaduct in France, the tallest in the world. In the area of tunneling, we have extensive expertise and experience, both in rocky and in soft subsurface soils.

Our principal activities in this service area include:

- Planning and designing roads, highway systems, bridges, tunnels, harbors, railroads, airports, industrial sites and business parks;
- Traffic and transportation planning and design and traffic engineering studies;
- Pedestrian and bicycle facilities design and parking analysis and design;
- Surveying and geotechnical services for roads, railways and high-rise construction projects;
- Consulting and mapping for cadastral purposes for utilities, facilities such as airports and industrial complexes, as well as for local governments;

- Architecture;
- Construction management, administration, supervision and physical construction services;
- Project and program management, facilities programming, master planning;
- Assistance with the financial and economic aspects of heavy infrastructure construction projects;
- Quality control and operational assistance;
- Feasibility studies;
- Structural, mechanical, electrical and process engineering; and
- Assistance with bidding processes and permits applications.

Environment

Our environment area is focused on the improvement and maintenance of air, soil, and surface-water quality as well as projects related to noise abatement, solid waste disposal and external safety. We are engaged in environment activities in all of our geographic segments. This service area s share of total gross revenue was 295 million, 243 million and 223 million in 2005, 2004 and 2003, respectively, and accounted for 29%, 27% and 27% of our total gross revenue in those years, respectively.

A considerable portion of our gross revenue in the environment service area results from soil and groundwater remediation projects. In this area, we maintain a world leadership position that is based on cost-effective remediation technologies, a solid reputation and the Guaranteed Remediation Program (GRiP®). Under GRiP®, we provide turnkey solutions for the remediation of contaminated properties at a guaranteed price, while covering risks with insurance policies. In addition, we are able to serve multinational companies in multiple countries. This is significant as a growing number of multinational companies are reducing the number of consultants they use. Many of our clients already are multinational companies.

Our principal activities in this service area include:

- Investigation, identification and evaluation of sources of pollution and chemical contamination in groundwater, air and soil, including the velocities and directions of contaminant migration;
- Identification and evaluation of hydrologic factors incident to the siting and operation of industrial plants, mines, power generating stations, and waste-storage and disposal facilities;
- Formulation of remedial actions, including the design of groundwater monitoring and treatment systems at industrial waste treatment and disposal sites, and the development and evaluation of strategies for the abatement of chemical contamination of groundwater from various sources;
- Provision of technical guidance to governmental agencies with respect to the significance of groundwater, and methods for abating, controlling, and monitoring groundwater contamination;
- Performance of feasibility studies, construction management, and the installation, operation and maintenance of specialized remedial technologies, including bioremediation, soil vapor extraction, air sparging, hydraulic barriers, free product control and recovery, steam-enhanced soil-venting, contaminated surface and groundwater recovery and treatment, underwater sediment remediation,wastewater treatment, stabilization/solidification, landfill caps and containment, and air quality control;

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- Life sciences services including toxicology, epidemiology, molecular biology, endocrinology, ecology, pathology, chemistry, environmental systems, modeling, and statistical analysis.

- GRiP®, which include the provision of a guaranteed maximum price for remediation of contaminated industrial sites, along with an insurance scheme that limits the client s risk exposure;

- Redevelopment, Closure, Asset and Industrial Management, or RECLAIM , which is an integrated approach developed for company sites slated for closure. The approach includes a remedial plan, often based on GRiP®, combined with a plan for redevelopment. The environmental remediation can then be co-funded from the sale of the redeveloped property.

- Comprehensive assessment, containment and remediation services for both surface and subsurface hydrocarbon releases, as well as the design, installation, operation and maintenance of hydrocarbon remediation systems;

- Environmental management consulting, including supporting clients implementing environmental policies, compliance with legal requirements and reduction of environmental risks, environmental audits, environmental management systems, waste management, and assessment of procedures, materials and products;

- Provision of special contracting services for the construction and operation of remedial systems, focusing on the installation of systems and the subsequent long-term operation of the installed equipment, maintenance and sampling of the treatment processes;

- Air quality services ranging from investigations through design to installation and operation, including source evaluation investigations, such as stack testing, compliance testing, diagnostic testing, continuous omissions monitoring, trial burn testing, air toxins testing, testing of remedial systems, ambient air sampling, and air quality consulting services, such as permitting, omissions inventories, dispersion modeling;

- Noise reduction services aimed at the insulation of homes against noise from aviation, rail and road traffic; and

- Other activities, including expert testimony, modeling, risk evaluation and risk assessment services, bioremediation services, regulatory support, preparation of environmental statistics, geophysics, and community relations.

Facilities

Our facilities area is focused on buildings in which people live, work, or relax. We engage in the facilities area in all of our geographic segments. This service area s share of total gross revenue was 180 million, 144 million and 110 million in 2005, 2004 and 2003, respectively, and accounted for 18%, 16% and 13% of our total gross revenue in 2005, 2004 and 2003, respectively.

The facilities market is strongly influenced by the level of private investment and therefore is more cyclical. In the past two years, we have focused on transitioning to higher added value services in an effort to improve profitability. Greater emphasis has been placed on expanding project and program management and facility management services. The acquisition of AYH was an important step in reaching this goal. At the same time, we began reducing and outsourcing our detailed engineering activities. It was becoming increasingly difficult to offer distinguishable services to the marketplace, which negatively impacted our profitability and led to the 2005 first quarter sale of detailed engineering services in the United States.

Our activities in the facilities area include:

- Project and program management, including cost management and master planning;
- Facility management, including technical maintenance of a client s buildings, as well as security, procurement of energy and water, and catering;
- Architectural design and architectural development services;
- Civil, structural, mechanical and electrical engineering;
- Instrumentation and controls services;
- Industrial and manufacturing project services;
- Feasibility studies and strategic planning;
- Field operations;
- Consulting services for construction processes, project organization, as well as design specifications; and
- Provision of temporary technical staff.

Marketing and Distribution

Our major marketing channels are our primary operating companies, which are ARCADIS G&M Inc., Blasland, Bouck & Lee Inc., Greystone Environmental Consultants, Inc., ARCADIS Nederland B.V., ARCADIS Deutschland GmbH, ARCADIS BMB B.V., ARCADIS Euroconsult B.V., ARCADIS Belgium N.V. , SWK NV, ARCADIS FC International SAS, ARCADIS Logos Engenharia SA, Biogas SA, ARCADIS Geotecnica Consultores SA, PRC Holding B.V., ARCADIS Aqumen Facility Management B.V., ARCADIS Geraghty & Miller International Ltd., AYH Plc., ARCADIS Polska Sp. Z.o.o., and Profil Sp. Z.o.o..

Through our multinational client program, we have increased organic growth by expanding our relationships with existing multinational clients. For example, our multinational clients program has resulted in the execution by several existing clients of master service agreements that establish the basis for providing international services to these clients for extended periods.

Competition

We are engaged in highly competitive markets in all of our geographic reporting segments and service areas. We compete with many other firms, ranging from small local firms to large national and international firms. In addition to price, we compete primarily on the basis of quality of service, project management expertise, and ability to provide integrated solutions. Other competitive factors include application of state-of-the-art technology, geographic location and availability of personnel. A significant portion of our revenue is generated through direct contact and negotiations with clients resulting largely from existing relationships rather than through public or other bidding procedures. The development of new and more efficient technology by our competitors may have an adverse effect on us if such technology is not accessible to us or is incompatible with the services we provide.

Effect of Government Regulation

Of our business, approximately 45% of our revenue is derived from governmental entities. These clients rely on tax revenues to fund large public works projects of the type for which we are often retained. During an economic downturn, governmental entities collect significantly less tax revenue and often try to limit discretionary expenditures to balance their budgets. Government limits on spending in regard to environmental remediation,

infrastructure expansion or enhancement, building projects, real estate data services or telecommunications infrastructure investments, could have a material adverse effect on our ability to attract and/or retain business.

Our business is also affected by the implementation and modification of governmental legislation and regulations in a number of areas, but particularly with respect to the environment. We assist private sector clients in complying with, or responding to, new governmental legislation and regulations. Therefore, when government strengthens regulation of the environment, the demand for our services typically increases. When regulations are weakened or enforcement of such regulations seems less likely, our clients are less likely to need our services, which could materially and adversely affect our business. Changes in regulations and legislation may also affect certain other areas of our business, including communications, infrastructure and, to a lesser extent, facilities.

C. *Organizational structure.*

ARCADIS N.V. is not directly or indirectly owned or controlled by another corporation or by any government, foreign or domestic. Only our major consolidated companies are listed below, stating the percentage of ownership by ARCADIS N.V. and the country in which each is domiciled.

Company	Percentage Ownership	Domicile
ARCADIS G&M Inc.	100	United States
ARCADIS Nederland B.V.	100	The Netherlands
ARCADIS Deutschland GmbH	100	Germany
ARCADIS Euroconsult B.V.	100	The Netherlands
ARCADIS Belgium N.V.	100	Belgium
ARCADIS FC International SAS	100	France
ARCADIS Logos Engenharia SA	50 plus 1 share	Brazil
ARCADIS Geotecnica Consultores SA	100	Chile
PRC Holding B.V.	100	The Netherlands
ARCADIS Aqumen Facility Management B.V.(1)	50	The Netherlands
ARCADIS Geragthy & Miller International Ltd. (UK)	100	United Kingdom
AYH Plc.	100	United Kingdom
ARCADIS Polska Sp Zoo	100	Poland

(1) Proportionately consolidated

D. *Property, plant and equipment.*

Our principal property and equipment consists of land, offices, operating facilities, storage grounds, workshops, vehicles, equipment and software which, at December 31, 2005, represented approximately 9% of our consolidated assets. We believe that our offices, operating facilities, vehicles and equipment are well maintained, suitable, and adequate for our current operations and that suitable additional or substitute space will be available as needed to accommodate any expansion of our operations and for additional offices.

Our headquarters are leased and are located in Arnhem, the Netherlands. We own regional offices, workshops, storage grounds and land throughout the Netherlands. We lease approximately 260 local offices throughout the Netherlands, Europe, the United States, Asia, Africa, and Latin America. During fiscal 2005, aggregate annual rental payments on real estate leased by us approximated 37 million.

The principal assets utilized in our consulting/engineering operations consist primarily of computer equipment and software, instruments, operating equipment, workshop inventory, office inventory and reproduction equipment. Some of the computer equipment is leased. The principal assets we utilized in contracting operations consist primarily of operating equipment such as earth-moving equipment, front loaders and trucks, mowers, tractors, drainage machines and office and workshop inventory as well as computer equipment. Some of the operating equipment is leased.

At December 31, 2005, we were not aware of any environmental issues existing at any of our facilities that may affect the utilization of such facilities.

ITEM 4B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. ***Operating results.***

Overview

The following is a discussion of our consolidated financial condition and results of operations for the two years ended December 31, 2005 and other factors that are expected to affect our prospective financial condition. The following discussion and analysis should be read in conjunction with Selected financial data and our Consolidated Financial Statements which are included elsewhere in this annual report. Our Consolidated Financial Statements are prepared in accordance with IFRS. IFRS differs in certain respects from U.S. GAAP. See our reconciliation of IFRS to U.S. GAAP in Note 18 to our Consolidated Financial Statements. Our results may fluctuate from period to period due to project delays, occasioned by regulatory agency approvals or client considerations, weather and the number of working days available.

We are an international provider of consulting and engineering services in four primary geographic reporting segments: the Netherlands, the United States, other European countries, and Rest of World, which includes all countries in which we operate outside the first three segments. We provide these services in three principal service areas: infrastructure, environment and facilities.

Developments by Geographic Segment

Our organizational structure is primarily geographic, usually with one (to two) operating companies per country. These operating companies report directly to the Executive Board. We have grouped our operations into four geographic regions: the Netherlands, other European countries, the United States and Rest of World.

The Netherlands

During 2005, market conditions in the Netherlands showed some signs of recovery. This was the result of low economic growth, and limited government spending. Organic gross revenue (gross revenue not attributable to acquisitions) in the Netherlands declined by 1%, and this decline only occurred in the infrastructure service area. In the environment and facilities service areas growth was achieved. Gross revenue from the Netherlands represented approximately 29% of our total gross revenue for 2005.

The restructuring measures implemented in the Netherlands in 2004 clearly had a positive effect on profitability. Organically, operating income improved by 2.2 million or 20% in 2005. This was partially offset by the effect of acquisitions and divestments. As a result, operating income totaled 11.5 million in 2005 compared to 7.6 million in 2004.

Other European countries

Gross revenue in other European countries (including Belgium, the Czech Republic, France, Germany, Poland, Spain and the United Kingdom) increased 5% to 267 million in 2005, compared to 254 million in 2004. Gross revenue from other European countries represented approximately 26% of our total gross revenue for 2005. Acquisitions and divestments caused a decrease in revenues of 1%. This was the result of the sale of our 50% interest in the Spanish company, Grupo EP during 2005. The effect of this sale on gross revenue was almost entirely offset by the contribution from acquisitions completed in 2004, as well as the acquisitions in 2005 of SWK in Belgium and AYH in the United Kingdom.

Operating income grew by 53% to 18.8 million in 2005, compared to 12.3 million in 2004. The comparability of results was severely affected by the increase in amortization of identifiable intangible assets, which increased by 1.2 million to 1.4 million in 2005, compared to 0.2 in 2004. Without the effect of the increase in amortization of identifiable intangible assets, operating income would have increased by 62% in 2005. Except for Germany, all countries contributed to this improvement. Operating income from other European countries represented 34% of our total operating income for 2005.

The United States

Gross revenue for the United States increased 31% in 2005 to 349 million, compared to 267 million in 2004. Gross revenue from the United States represented approximately 35% of our total gross revenue for 2005. Organic growth was 8%, while acquisitions contributed 23%. This included two acquisitions completed in 2005 the acquisition of Greystone in June 2005 and BBL in September 2005.

In the United States, activities in the environmental market developed very favorably. On the one hand this was the effect of a solid backlog in GRiP® projects, while on the other hand, regular environmental consulting work also saw healthy increases. Infrastructure activities saw growth as a result of the passage of the Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2003 (SAFETEA) by the federal government. For a period of six years, this legislation will release an additional $285 billion in federal funding into the infrastructure market. In the facilities service area, the influence of the shift in investment to low-wage countries (particularly China) was noticeable, resulting in a strong decline of activities in this area.

Operating income increased by 38% to 18.3 million in 2005, compared to 13.3 million in 2004. The comparability of these results was severely impacted by the increase in amortization of identifiable intangible assets, which increased by 2.5 million to 2.6 million in 2005, compared to 0.1 in 2004. Without the effect of the increase in amortization of identifiable intangible assets, operating income would have increased by 56% in 2005. Operating income from the United States represented 34% of our total operating income for 2005.

Rest of World

Activities in Rest of World, include activities primarily in the infrastructure and environment service areas in Brazil and Chile, as well as projects in developing countries, financed by international donors such as the World Bank and the European Union. Gross revenue rose by 25% to 97 million in 2005, compared to 78 million in 2004. The sale of two smaller companies in the donor-financed market resulted in a gross revenue decrease of 6%. The strong increase in the value of the Brazilian real produced a positive currency effect of 12%. Organic growth was 19%, and predominately came from Brazil, where activities grew by 65%. Gross revenue from Rest of World represented approximately 10% of our total gross revenue for 2005, and operating income from Rest of World represented approximately 11% of our total operating income for the year.

Revenues and Expenses

We derive our gross revenue primarily from the provision of consulting and engineering services, as well as other services, generally under the categories of contracts described below, which in some circumstances may be combined.

- *Fixed price contracts.* Fixed price contracts provide for the payment of a negotiated fee that is fixed at the inception of the contract. When we enter into these types of contracts we estimate the amount of time and the cost for us to perform the services under the contract. We may underestimate the actual time and cost. Further, the information upon which the fee is based may change or may be inaccurate. As a result, we may earn less under the contract than we anticipated or suffer a loss. Conversely, if we perform the services more efficiently than we estimated, we may earn more under the contract than anticipated. With a well defined scope of work and schedule, we can limited the risk of underestimating our costs.

- *Cost-plus contracts.* Cost-plus contracts provide for payment based on the time spent to perform the contract, applying agreed upon rates for different categories of employees, and then adding out-of-pocket

expenses. Our risk arising from this type of project is usually limited. Clients will choose this type of contract when it is difficult to estimate in advance how much time will be spent or when a client wishes to bring in a temporary staff to conduct certain activities under its management.

- *Cost-plus contracts with a cap.* Cost-plus contracts with a cap are similar to cost-plus contracts, but a maximum project cost is agreed to that cannot be exceeded without the prior agreement of the client. In principle, we cease work when the cap is reached unless a performance agreement has also been negotiated. In that case, we may need to complete the additional work at no additional cost to the client.

- *Contracts with a building sum-related fee.* Contracts with a building sum-related fee are normally used when our activities are directly related to the total completion of a construction project, such as a road, building or civil engineering project. This type of project involves producing the design, developing the engineering, handling procurement, and supervising construction. With this type of contract, the total fee for the various activities is determined by a percentage of the sum of the total construction costs. The activities are budgeted on the basis of an estimate of the construction costs. Actual construction costs, because of overcapacity in the market, may be lower than we estimate, and as a result our fee could be lower. Conversely, if we efficiently manage the project, we can significantly enhance our margin.

- *Turnkey contracts.* Turnkey contracts are similar to the fixed price contracts described above. However, this type of contract also includes the engineering and construction components of the work (a design/build contract). These types of contracts require additional preparation for producing specifications and determining price. The advantages for the client are price certainty at an early stage, efficiency in the preparation and quicker deliverability. Because we do not usually perform the construction (building) component of the work, the risk that the work will not be completed is usually covered by a back-to-back contract with a contractor. In part due to size, this type of contract may be riskier for us. Risks arise from design and engineering miscalculations, unclear specifications of the product, or contractors not meeting their obligations. However, we may achieve greater profits by completing the project efficiently and under budget.

- *GRiP® contracts.* GRiP® stands for Guaranteed Remediation Program. GRiP® contracts are a special type of turnkey contracts that are used in the environmental market for the remediation of contaminated property. A remediation plan is prepared, and remediation costs are estimated based on an environmental study and a determination of the extent of contamination. The performance of the remediation plan is offered (under certain conditions) to the client for a fixed price (turnkey). The risks of cost overruns are largely covered by an insurance policy. We have very rigorous procedures and policies for project estimation and determination of insurance levels and work closely with our insurers to minimize the total risk. However, there are always some inherent project estimation risks. Remaining risks can arise as a result of disputed settlements with the insurer and associated litigation.

- *Design, Build, Finance and Operate contracts (DBFO).* DBFO contracts allow us to deliver a total product, including arranging financing and operating the built product for a certain period of time. This type of project is normally conducted as part of a consortium, with a partnership set up specifically for the project, acting as the contract party. Our participation depends on the project type, its scope, and the risk profile. Our participation is often related to the capitalized development effort provided by our employees. We face risks under this type of contract when we make advance investment in the development of the project, have an equity interest in the partnership, as well as risks associated with obligations that are entered into for completing or operating the project. In this type of project, the operating companies are assisted by a team at corporate level, who completes the risk analysis.

- *Framework contracts or Master Service Agreements.* Framework contracts or Master Service Agreements are service agreements that are negotiated for a specified period of time. In a framework contract, projects may sometimes be put out to bid to a number of providers. Returned bids include estimates by project or project components, or maximum amounts are set. Under the pressure of competition, unfavorable terms may be agreed upon, thereby

producing a negative effect on our business result for a long time. However, this type of contract provides a stable source of revenue over a longer period of time.

- *Contracts with a success fee.* Contracts with a success fee provide that we are eligible for an agreed payment that is linked to achieving agreed upon results, whether or not within a fixed time period. In theory, we can receive success-based fees for each type of contract described above.

Our operating expenses include materials, services of third parties and subcontractors, operational costs and depreciation.

- *Materials, services of third parties and subcontractors*. Materials, services of third parties and subcontractors includes project-related costs of materials and services charged by third parties including subcontractors.

- *Operational costs*. Operational costs includes all costs relating to employees, as well as non-project-related out-of-pocket expenses.

- *Depreciation.* Depreciation includes the depreciation of buildings, software, furniture, and fixtures.

Critical Accounting Policies

For the financial years up to and including 2004, we have presented our financial statements on a basis consistent with accounting principles generally accepted in the Netherlands. In 2005, the new accounting rules under IFRS went into effect. At the end of this Item 5, we have included a summary of the effects that the introduction of the IFRS had on our balance sheet and statement of income.

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent liabilities at the date of our financial statements. The policies that management considers to be most important to the presentation of our financial condition and results of operations and to require the most significant demands on management s judgments and estimates about matters that are inherently uncertain are discussed below. Management cautions that future events often vary from forecasts and that estimates routinely require adjustment.

A more complete description of our significant accounting policies appears in Note 1 to our Consolidated Financial Statements.

Work in progress. Revenue is generally recognized as services are rendered. Revenue from fixed fee contracts is recognized on the percentage of completion method, measured generally by estimating the status of completion of the project and recognizing the related estimated percentage of revenue and gross profit expected from the project. Revenue from cost-plus contracts is recognized as costs are incurred plus applicable fees. Revenue from time-and-material contracts is recognized at contract rates as work is performed and material costs are incurred. Revenue is recognized on additional services requested by clients for which a formal change order has not been obtained when the realization is probable and the amount can be reliably estimated. Provisions for estimated losses on contracts are recorded when identified. Unbilled fees, at estimated billable amounts, represent revenue recognized for which billings have not yet been presented to customers.

Costs. Contract costs include direct labor costs, subcontractor costs, other direct costs and indirect costs. Our method of revenue recognition requires us to prepare estimates of the costs to complete contracts in progress. In making such estimates, judgments are required to evaluate contingencies, such as potential variances in schedule and labor and other contract costs, liability claims, contract disputes or achievement of contractual performance standards. Changes in total estimated contract costs and losses, if any, are recognized in the period they are determined.

Impairment. The carrying amounts of the assets of ARCADIS, other than work in progress and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment.

For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement. Impairment losses recognized in regard to cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

The recoverable amount is the greater of the net selling price and value in use. In assessing the value in use, estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss of goodwill cannot be reversed. Regarding other assets, an impairment loss can be reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Under US GAAP assets and liabilities acquired in a business combination are recorded at their estimated fair values as of their acquisition date. At December 31, 2005, we had approximately 149.2 million of goodwill (U.S. GAAP amount), representing the cost of acquisitions in excess of fair values assigned to the underlying net assets of acquired companies. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and other intangible assets, goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment testing. The assessment of goodwill involves the estimation of the fair value of our geographical assets. Management completed this assessment during the fourth quarter of 2005 based on the best information available as of the date of assessment and determined that no impairment existed. Future events could result in impairments of goodwill or other assets.

Accounting for pensions. Under IFRS the Company s pension plans qualify as defined contribution plans. Under U.S. GAAP, the Dutch plans qualify as defined benefit plans. For a further explanation of this, please refer to Notes 17 and 18 in the Consolidated Financial Statements included in Item 18 of this annual report. Retirement benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Retirement benefit accounting is intended to reflect the recognition of future benefit costs over the employee s approximate service period, based on the terms of the plans and the investment and funding decisions we make. In accounting for these retirement benefits, management is required to make assumptions regarding variables such as discount rate, rate of compensation increase, return on assets, and mortality tables. Periodically management consults with outside actuaries regarding these assumptions. Changes in these key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic cost incurred. Our policies and key assumptions are included in Note 17 to our Consolidated Financial Statements.

Provisions for contingent liabilities. By their nature, provisions for contingent liabilities are dependent upon estimates and assessments of whether the criteria for recognition have been met, including estimates as to the outcome and the amount of the potential cost of resolution. Contingent liabilities are recognized by a charge against income when it is probable that a liability has been incurred and the amount of such liability can be reasonably estimated. The most likely amount is accrued for costs of future liabilities that may ultimately arise when such an amount can be determined. If no amount within the range is considered more likely than any other, then the accrual is based on the low end of the range.

Contingent liabilities and provisioning for reorganizations, other litigation, and tax disputes are discussed in Note 12 Long-Term Liabilities and in Note 13 Trade and other Liabilities to our Consolidated Financial Statements. The provision for reorganizations is based on an estimate of the costs of dismissal of permanent staff, taking into account legal advice and the current facts and circumstances. Provisions for other litigation and tax disputes are also based on an estimate of the costs, taking into account legal advice and information currently available.

Should the actual outcome differ from the assumptions and estimates, revisions to the estimated provisions would be required, which could impact our financial position and results of operations.

Accounting for income taxes. As part of the process of preparing our consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating actual current tax expense and temporary differences between tax and financial reporting. Temporary differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that deferred tax assets will be recovered from future taxable income. A valuation allowance is recognized to reduce deferred tax assets if, and to the extent, it is more likely than not that all or some portion of the deferred tax assets will not be realized.

We have recorded a valuation allowance of 1.9 million as of December 31, 2005, based on estimates of taxable income by jurisdiction in which we operate and the period over which deferred tax assets are recoverable. In the event actual results differ from these estimates in future periods, and depending on the tax strategies that we may be able to implement, changes to the valuation allowance could be required, which could impact our financial position and results of operations.

Allowances for doubtful accounts. Allowances for doubtful accounts are maintained for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Results of Operations

The table below presents, for the periods indicated, (1) the percentage relationship that certain items in our Consolidated Statements of Income bear to net revenue and (2) the percentage increase (decrease) in Euro amounts for such items from year to year for the two-year period ended December 31, 2005.

	Percentage of Net Revenue		Percent Change
	2005	2004	2004 to 2005
Gross revenue	142.4	142.4	11.1
Materials, services of third parties and subcontractors	42.4	42.4	11.0
Net revenue	100.0	100.0	11.2
Operational costs	89.3	91.9	8.0
Depreciation	2.2	2.5	(2.8)
Amortization of identifiables	0.8	0.1	
Operating income	7.7	5.6	53.1
Financing income/expenses net	(0.3)	(0.5)	(46.8)
Income from operations before taxes	7.5	5.1	63.9
Taxes	2.5	1.6	66.8
Income of consolidated companies from operations after taxes	5.0	3.4	62.6
Income of non-consolidated companies and long-term investments after taxes	0.2	0.4	(43.5)
Group income from operations after taxes	5.2	3.8	51.8
Minority interest	0.5	0.3	64.5
Net income	4.7	3.5	50.7

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

On the whole, operational results during 2005 developed favorably. Gross revenues increased with 11% from 2004, while net income improved with 51% from 2004. In particular, the environment service area produced excellent results. You should read our audited Consolidated Financial Statements in conjunction with the following analysis.

Gross revenue

Gross revenue in 2005 increased by 11% to 1 billion, compared to 901 million in 2004. Of the total increase, 1% was the effect of currency impacts. Acquisitions and divestments contributed a net of 5%, and organic growth contributed 5%. The organic growth was primarily the result of strong growth in the U.S. environmental market and in Brazil, as well as the gradual recovery in the Dutch market.

As of 2005, the geographic distribution of revenue had been altered. The activities in North and South America were separated into two segments: the United States became its own segment, while South America was added to the Rest of World segment. Strong expansion through acquisitions and relatively high organic growth are driving the increase in the U.S. percentage of total company sales. In 2005, 35% of the gross revenue was generated in the United States compared to 30% in 2004; the Netherlands contributed 29% in 2005, compared to 33% in 2004. Other European countries contributed 26% in 2005, compared to 28% in 2004, and the Rest of World contributed 10% in 2005, compared to 9% in 2004.

Net revenue

Our net revenue, the part of sales produced by our own employees, increased 11% to 703 million in 2005, compared to 633 million in 2004. Excluding the currency effect, growth was 10% in 2005. Of the growth, 6% came from acquisitions and divestments. The 5% organic growth was equal to that of gross revenue growth. Compared to 2004, there was a lower revenue inflow from the sale of businesses, which resulted in a 1% decrease in net revenue.

Operational costs

Operational costs increased by 8% to 628 million in 2005, compared to 581 million in 2004. Acquisitions produced a 5% increase in operational costs, while currency effects resulted in a 1% increase. The organic increase of operational costs totaled 2% in 2005, clearly lower than the increase in net revenue, mostly due to improvements in staff utilization.

Depreciation expenses

Depreciation (excluding amortization) decreased 3% to 15.2 million in 2005, from 15.6 in 2004, and totaled 2.2% of net revenue in 2005, compared to 2.5% in 2004. The project management and consultancy companies that have been acquired are less capital intensive and require even less depreciation than the other ARCADIS operating companies, thus resulting in the decrease in depreciation.

Amortization of identifiable intangible assets

Identifiable intangible assets related to acquisitions must be separated from goodwill and amortized separately. For ARCADIS, this expense generally includes the profit in the acquired company s backlog. These assets are amortized over their economic lifetime (on average one to two years). In 2005, the amortization increased sharply to 6.0 million from 0.4 million in 2004, as a result of acquisitions.

Operating income

Operating income increased 53% to 54.4 million in 2005, compared to 35.5 million in 2004. Operating income excluding amortization of identifiable intangible assets (which we also refer to as EBITA) and excluding certain other expenses was calculated as follows:

(In Millions of Euros)	**2005**	**2004**
Operating income as reported	54.4	35.5
Amortization identifiable intangible assets	6.0	0.4
Operating income excluding amortization of identifiable intangible assets (EBITA)	60.4	35.9
Other items(1)	3.1	(3.2)
Operating income excluding amortization of identifiable intangible assets and other items	57.3	39.1

(1) Other items include items that we consider to be non-operational. In 2004, these items included the effect of the sale of businesses and a restructuring in the Netherlands. In 2005 these items included book gains and losses on the sale of businesses, as well as the effect of additional payments in pension plans.

Operating income before amortization rose 68%, and excluding other expenses, increased by 47%. The currency effect was 3% and was predominantly caused by the increase of the Brazilian real. The contribution from acquisitions and divestments on balance was 24%, considerably higher than the contribution to revenue growth of 5%, underscoring the positive margin effect. Organically, operating income before amortization rose 20%, also markedly more than revenue growth of 5%. Margins also improved organically, in part as a result of the restructuring measures in the Netherlands.

Margins

Market conditions resulted in an increase in margin (operating income excluding amortization of identifiable intangible assets as a percentage of net revenue) from 6.2% in 2004 to 8.2% in 2005.

Financing expenses

Financing charges were impacted positively in 2005 by 1.7 million from financial derivatives used to cover currency and interest risks. Excluding this effect, financing charges rose to 3.6 million in 2005, compared to 3.5 million in 2004. The increase was limited as a result of the gains from divested assets of 8.5 million and a further improvement of working capital throughout the year. In 2005, initial steps were taken to improve our financing structure in order to reduce interest charges as much as possible.

Tax rate

The 33.0% tax rate in 2005 was slightly higher than the 32.4% of 2004. In 2004, a higher tax-free book gain was realized from the sale of activities than was realized in 2005. This offset the effect of a decrease in the Dutch corporate tax rates.

In the United States, we may qualify for a tax credit for expenditures on research and development. From 1999 to 2001, a total of $5.4 million was included in the income statement. We are awaiting a final settlement with the U.S. tax authorities regarding activities that qualify for this tax credit. No credits have been included in the results since 2002 and none will be included until this issue is resolved.

Contribution of non-consolidated companies; minority interest

The contribution from non-consolidated companies declined from 2.4 million in 2004 to 1.4 million in 2005. This was the result of the completion of a number of energy-sector contracts in Brazil. Meanwhile, a new contract for one of the projects was signed, contributing to 2005 fourth quarter profits.

Minority interest rose 65% to 3.2 million. This was mainly the result of a strong profit increase in Brazil.

Net income

Net income totaled 33.4 million in 2005, or 1.65 per share, against 22.2 million, or 1.10 per share in 2004. Net income includes a gain of 1.2 million from financial derivatives. This effect is not included in net income from operations. Net income from operations (net income before amortization of intangibles and items that we believe affect the comparability of results) was 33.4 million, 40% higher than the 23.8 million in 2004. Per share, this was 1.65 against 1.18 in 2004.

Number of outstanding shares

The number of issued shares remained approximately 20.3 million in 2005, almost unchanged compared to 2004. To cover obligations related to option plans, approximately 332,000 shares were repurchased, while approximately 303,000 shares that had been purchased earlier were used upon the exercise of options by employees. No new shares were issued. The average number of shares outstanding (as applied to calculate income per share) was 20.3 million compared to 20.1 million in 2004. For an overview of options outstanding and additional information on option plans, please refer to Item 6.E. of this annual report.

Dividends

Management proposed, and on May 17, 2006 at the Annual General Meeting of Shareholders, our shareholders approved a dividend of 0.66 per share over 2005. This equals 40% of net income from operations. ARCADIS dividend policy is to recommend payment of an annual dividend ranging from 30% to 40% of net income from operations. The dividend will be paid out in cash. The dividend for 2004 was 0.48 per share.

Non-GAAP Financial Measures

As noted above, our financial results are primarily presented in this annual report under IFRS. However, certain of the financial information presented are not in accordance with IFRS, which we refer to as non-GAAP . The reconciliation of these non-GAAP measures to IFRS measures is presented in the table below the following description of the non-GAAP measures:

ARCADIS has used the following non-GAAP measures in this Form 20-F: (1) operating income excluding amortization of identifiable intangible assets (which we also refer to as EBITA) and restructuring charges; and (2) net income from operations, for which we some times also exclude currency effects. Although these measures are not required or expressly permitted by IFRS, we use them because we believe they provide a useful basis for comparison of result of operations from previous years. We also believe these measures promote maximum transparency with regard to the financial effects of our ongoing business operations. In addition, our management uses these measures when determining our strategy and setting our financial goals. ARCADIS excluded restructuring charges from these non-GAAP measures because ARCADIS has no past history of restructuring charges and has no expectation that these charges are likely to recur in the future.

ARCADIS also uses the measures revenues excluding exchange rate differences (which have the same meanings as currency effects) and net income excluding currency effects because we operate internationally, and the effects of exchange rate differences on our revenues and net income do not necessarily reflect our performance. As noted above, ARCADIS has also excluded restructuring charges because of their non-recurring nature.

Set forth below are reconciliations of these non-GAAP measures to net income under IFRS.

Reconciliation of

Operating Income Excluding Amortization of Intangibles and Restructuring Charges to Net Income

(In Thousands of Euros)	2005	2004
Net income	**33,414**	**22,176**
Minority interest	3,170	1,927
Income from non-consolidated companies and long-term investments, after taxes	(1,382)	(2,448)
Taxes on income	17,342	10,400
Financing income/(expense) net	1,844	3,464
Operating income	54,388	35,519
Amortization of identifiable intangibles	5,967	376
Operating income excluding amortization of intangibles (or EBITA)	**60,355**	**35,895**
Restructuring charges		4,417
Operating income excluding amortization of intangibles and restructuring charges	**60,355**	**40,312**

Reconciliation of

Net Income from Operation, Excluding Currency Effects to Net Income

(In Thousands of Euros)	2005	2004
Net income	**33,414**	**22,176**
Pensions effects(1)	(394)	(667)
Effects of financial instruments	(1,213)	
Non-recurring income net of tax(2)	(2,486)	1,366
Income taxes		519
Amortization	4,045	376
Net income from operations	**33,366**	**23,770**
Currency effects(3)	(448)	689
Net income from operations excluding currency effects	**32,918**	**24,459**

(1) Pension effects relate to the following: the change from defined benefit to defined contribution plans under IFRS, changes in Dutch pension legislation, and the pledge by the Lovinklaan Foundation related to early retirement of ARCADIS employees. The amounts shown do not concern total pension amounts and costs, but the changes related to the above mentioned items.

(2) Non-recurring income net of tax relate to gain on sale of investments for 2005 and restructuring charges for 2004.

(3) Currency effects are calculated by multiplying net income from operations for a fiscal year, excluding income from acquisitions or divestments, by difference between the exchanges rates of that fiscal year and the exchange rates for prior fiscal year.

In addition to the non-GAAP financial measures discussed above, we also present information in this annual report regarding increases or decreases in gross revenues, EBITDA and net income resulting from organic changes and from acquisitions or divestments. We also refer to organic growth being operational or non-operational

and excluding currency effects. Set forth below is a further explanation of these terms and a reconciliation of these measures to the IFRS measures used in their calculation.

- *Organic.* We use the term organic in this annual report to refer to the internal growth of activities in subsidiaries that have been consolidated for more than one year. Internal growth in companies that have been consolidated for one year or less is accounted for as growth through acquisitions .

- *Currency effect.* As stated above, the term currency effect refers to the effect on our results of changes in the value of currencies against the Euro for the production and reporting of quarterly and annual results. As the costs and revenues for our operating companies are customarily in the same currency, the currency effect is a translation effect. Currency effects are calculated by multiplying net income for a fiscal year, excluding income from acquisitions or divestments, by difference between the exchanges rates of that fiscal year and the exchange rates for prior fiscal year.

- *Acquisitions/Divestments*. We describe revenue developments from acquisitions/divestments to refer to revenue changes resulting from the purchase or sale of companies and the internal growth in those companies after they have been consolidated within ARCADIS for one year or less. After that period, internal growth in these units is accounted for as organic growth.

- *Non-operational*. Non-operational items refer to items that are not related to the actual operations of our business and that affect the comparability of results. These items in 2004 included the effect of the sale of businesses and a restructuring of our business in the Netherlands. In 2005 these items included book gains and losses on the sale of businesses, as well as the effect of additional payments in pension plans.

- *Net income from operations*. Net income from operations refers to net income excluding the amortization of identifiable intangible fixed assets and the costs related to pension effects.

Origin of Developments in Revenue and Income

	2005	**2004**
Gross revenues		
Total gross revenues	1,001.1	900.8
Increase from preceding year	100.3	
Breakdown of increases		
Acquisitions/divestments	46.2	
Currency effect	10.5	
Book gains on sale	(3.6)	
Organic growth	47.2	
Operating income excluding amortization of intangibles (or EBITA)		
Total	60,355	35,895
(Decrease)/increase from preceding year	24,460	
Breakdown of (decreases)/increases		
Acquisitions/divestments	9,326	
Currency effect	1,183	
Organic growth	13,951	
Non-operational	6,278	
Operational	7,673	
Net income from operations		
Net income from operations	33,366	23,770

Increase/(decrease) from preceding year	9,596
Breakdown of increases/(decreases)	
Acquisitions/divestments	3,302
Currency effect	448
Organic growth	5,846
Non-operational	4,246
Operational	1,600

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B. ***Liquidity and capital resources.***

Working capital, consisting of work in progress amounting to 113.7 million (see Note 7 to our Consolidated Financial Statements) plus trade receivables amounting to 204.3 million (see Note 13 to our Consolidated Financial Statements) minus billing in excess of costs amounting to 89.3 million and minus accounts payable amounting to 72.5 million (see Consolidated Balance Sheet) declined as a percentage of gross revenue (amounting to 1,001.1 million). As a percentage of gross revenue (measured at the level of the fourth quarter times four), working capital declined from 13.3% in 2004 to 12.7% in 2005. In the opinion of management, our working capital is sufficient to meet our present requirements.

Net cash provided by operating activities was 66.8 million for the year ended December 31, 2005, compared to net cash provided by operating activities of 44.8 million for the year ended December 31, 2004. The increase was the result of growth in operating income for the Company, as well as a reduction in the amount of working capital employed.

Net cash used in investing activities was 85.1 million for the year ended December 31, 2005, compared to net cash used in investing activities of 19.7 million for the year ended December 31, 2004. The net cash flow activity related to investing activities consisted primarily of investments in the acquisition of consolidated companies, investments in property, plant and equipment and investments in non-consolidated companies.

Net cash provided by financing activities was 42.1 million for the year ended December 31, 2005, compared to net cash used in financing activities of 6.7 million for the year ended December 31, 2004. The net cash flow activity related to financing activities consisted primarily to a new long-term debt arrangement related to the acquisition of new operations.

Cash at year-end 2005 was 73.9 million, compared to 48.2 million in 2004. Net debt (cash minus interest-bearing debt) at year-end 2005 was 52.2 million against net cash at year-end 2004 of 5.8 million.

At year-end 2005, a total of 258 million in short-term credit facilities was available, compared to 172 million at year-end 2004. As of December 31, 2005, 2.1 million of these facilities were used. In addition, banks have pledged performance bonds and other guarantees related to projects for a total of 40 million. A performance bond is a guarantee that we give to our client related to our performance under a contract. This secures the client with an income, in case we do not perform according to the stipulations in the contract for which the performance bond is issued. If, however, we fully meet all the requirements of the contract, the bond will be canceled. At year-end 2005, our long-term debt totaled 116.1 million. See Notes 9 and 10 to our Consolidated Financial Statements for a more detailed discussion of our short-term and long-term credit facilities.

ARCADIS has reached agreement with a number of banks on new financing facilities. This involves a refinancing and centralization of nearly all group debt and bonding facilities. The new centralized finance structure consists of three components, all of which have been closed at market rates.

A new term loan facility for $90 million was entered into **with a consortium of four banks** in order to retire the bridge loan that was taken in relation to the acquisition of BBL at the end of September 2005. Half of this loan matures after five years, the other half after seven years.

Uncommitted multicurrency facilities of 100 million have been entered into with a consortium of four banks which will be used for financing of working capital.

An uncommitted bonding facility of 50 million has been entered into with ABN AMRO Bank.

Other Balance Sheet Items

Our total assets grew from 442.3 million at year-end 2004 to 650.1 million at year-end 2005, mainly because of expansion through acquisitions. As a result of acquisitions completed in 2005, goodwill rose to 116.0 million. compared to 50.0 million in 2004. The identifiable assets of acquisitions are capitalized separately, and at year-end 2005, this totaled 8.3 million. This generally relates to the value of the yet to be realized profit in the backlog of the acquired companies.

Shareholders equity rose by 39.8 million to 176.2 million at year-end 2005 as follows:

(In Millions of Euros)	**Effect**
Net income for 2005	33.4
Dividend payment for 2004	(9.7)
Currency exchange rate differences	10.0
Exercising of options	2.6
Temporary purchase of shares to cover option plan obligations	(6.6)
Additional paid-in capital by Stichting Lovirklaan for pensions	6.5
Option costs(1)	0.6
Fiscal effects related to option plans	3.0
	39.8

(1) For more information on option costs, please refer to Note 15 in our Consolidated Financial Statements.

Concerning our balance sheet ratios, solvency calculated as shareholders equity, amounting to 176.2 million and minority interest amounting to 11.9 million as a percentage of total assets amounting to 650.1 at year-end 2005 was 28.9%, compared to 32.9% at year-end 2004. Return on average capital invested (shareholders equity plus net interest bearing debt) was 20.6%, compared to 17.2% in 2004.

Capital Expenditures

Investments in tangible fixed assets, excluding acquisitions, were 14.9 million compared to 11.8 million in 2004, equivalent to the level of depreciation. The investments primarily relate to communications and computer equipment. The expansion of the company through acquisitions required considerable investment for a total amount of 121.3 million. Net of cash this was 101.8 million, including 26.8 million that constitutes a withholding for a possible performance-based after payment to former AYH shareholders and the retention of part of the purchase price of BBL to cover possible BBL warranties. Goodwill amounted to 61.3 million, while the value of identifiable intangible assets was 11.5 million. In addition, 5.9 million was invested in non-consolidated companies and other financial fixed assets compared to 2.5 million in 2004. Divestments of consolidated companies yielded 15 million or 8.5 million after taxes, compared to after tax yields of 8.0 million in 2004, Of this amount in 2005, 2.5 million represents book gains.

C. *Research and development, patents and licenses etc*

We have spent approximately 1% of our consolidated gross revenue on research and development projects during each of the last three fiscal years. We expect that, consistent with past experience, most of our technological advances will be made in response to specific needs and opportunities. We have benefited from our understanding of soil and water dynamics and from technological and knowledge advances realized in connection with specific analysis, planning, development, construction and treatment projects that it has conducted for its clients.

Our research specifically has resulted in the development of several field instruments for hydrocarbon detection that we use for soil and groundwater investigation. Research continues to improve these quick no-lab analysis methods. For environmental and ecological reports, data management and detailed engineering, we undertake research in implementing and adjusting computer assisted design and software for geographical information systems.

We also have a group of research and development specialists who are involved in the performance of all remediation projects. This group of specialists continuously maintains and improves our core competence in the fields of separations technology and understanding of particle size distribution in soils, treatment of surface water and contaminated groundwater, and biological degradation of hydrocarbons and biowaste.

D. ***Trend information.***

We reported strong results for the first quarter of 2006. Gross revenues rose 29% to 287 million. Excluding currency effects, the increase was 24%. At 9%, organic growth was well above the company s target of 5%. Net income from operations increased 60% to 9.4 million, as a result of activity growth, further profit improvement in the Netherlands and good results in from companies acquired last year. The margin (operating income excluding amortization of intangibles (or EBITA) as a percentage of net revenue) increased to 7.9% compared to 6.4% in the same period last year.

We believe our organic growth is the result of continued favorable developments in the environmental market, the increase of services for private sector clients in the facilities market and the continuing recovery of the Dutch infrastructure market.

Key financial measures

(Amounts in millions of Euros unless otherwise stated)	First quarter 2006	2005	% Change
Gross revenue	287	223	29 %
Operating income excluding amortization of intangibles (or EBITA)(1)	16.1	10.4	55 %
Net income	7.7	5.5	39 %
Net income per share(2)	0.38	0.27	39 %
Net income from operations(3)	9.4	5.9	60 %
Net income from operations per share(2)(3)	0.47	0.29	60 %

(1) Operating income excluding amortization of identifiable intangible assets is calculated as follows;

	2006	2005
Operating income as reported	14.6	10.0
Amortization identifiable intangible assets	1.5	0.4
Operating income excluding amortization identifiable intangible assets	16.1	10.4

(2) Based on 20.2 million shares outstanding in 2006 compared to 20.3 million in 2005.

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(3) Net income from operations is calculated as follows:

	2006	2005
Net income	7.7	5.5
Effects of financial instruments	0.7	
Non-recurring income net of tax		0.1
Amortization	1.0	0.3
Net income from operations	9.4	5.9

Analysis

Of the 29% growth in gross revenue, 5% resulted from currency effects, caused by the higher exchange rates of the U.S. dollar and Brazilian real. Acquisitions and divestments on balance contributed 15%. Organic growth of 9% in part resulted from improved market conditions in the Netherlands, where activities grew in all service areas and the Netherlands experienced more than 10% growth. In addition, the United States, Brazil, Belgium and France contributed substantially to organic growth. In Poland, order intake was high, but government procedures related to the permits for construction projects caused delays in the start-up of projects.

Operating income excluding amortization identifiable intangible assets (or EBITA) rose 55%. Acquisitions and divestments on balance contributed 35%, while the currency effect was 7% positive. The organic increase was 13%, resulting from increased activity levels combined with margin improvement. Market recovery triggered improved profitability in the Netherlands.

Financing charges were impacted negatively by 0.9 million related to financial instruments for hedging currency and interest risks. The resulting effect on net income was an increase of 0.7 million. Excluding this effect and before amortization, net income from operations increased 60%. This is more than the increase in EBITA, primarily driven by the higher contribution of non-consolidated participations for energy projects in Brazil.

Developments by service area

The figures mentioned below relate to gross revenue developments, and discuss the comparison between the first three months of 2006 and the same period last year.

- ***Infrastructure***

Gross revenue decreased slightly due to earlier divestments. The currency effect was 5% positive. Organic gross revenue growth was more than 5% and came from almost all countries. The strongest growth was achieved in Brazil. In the United States growth continued at a good level. Although the pace of growth in the market for land development slowed somewhat, the market for roads and tunnels is expanding. In the Netherlands, recovery in the municipal market and improvement of rail infrastructure yielded healthy organic growth.

- ***Environment***

Gross revenue in this service area doubled, mainly through the acquisitions of BBL and Greystone. The currency effect was 7% positive. Organic growth was 12%, thanks to continued growth in traditional consulting work and increasing services on GRiP® projects in the U.S. with a high relative amount of subcontracting. Synergy with BBL and Greystone through exchange of specialty expertise and client relationships resulted in additional contracts. In South America, investments in mining increased the demand for environmental consultancy. In Europe, growth was mainly achieved in the Netherlands and the United Kingdom.

- ***Facilities***

Gross revenue rose by more than 25%, mainly through the acquisition of the U.K.-based project management firm AYH. The currency effect was 2% positive. Organic growth was well over 10%, mainly as a result of the facility management contract with DSM and Sabic. Private sector investments resulted in growth in Belgium, France and Brazil. Because of continued poor results, the detailed engineering activities in Germany

were sold.

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Outlook

The recovery of the Dutch infrastructure market is expected to continue. The growing economy also creates additional room for infrastructure investments in other European countries. In the United States the federal program SAFETEA is having a positive impact on the market, while in Brazil investments from the government and the private sector are creating a lot of work. In the environmental market, GRiP® and the expansion of services for private sector companies, partly as a result of synergy with BBL, are providing an excellent basis for further growth. In the facilities service area, growth should mainly come from expansion of management services as a result of outsourcing by companies, as well as providing project management services for international real estate investors.

After the first quarter, we announced that Biógas, a partnership in which ARCADIS Logos has a 33.3% stake, has sold one million carbon credits from the Biógas installation on the Bandeirantes landfill near São Paulo. These credits will be supplied in 2006 and 2007, at a price to be based on the futures price per year-end 2007. Over the period up to and including 2012, Biógas expects to have a total yield of four million carbon credits, based on current projections. Our share in the profits will amount to 16.7%.

We expect to incur out of pocket expenses in 2006 of 3 to 4 million in connection with Sarbanes-Oxley compliance and in connection with the integration of BBL.

E. *Off-balance sheet arrangements.*

Management believes there are no transactions, arrangements and other relationships with unconsolidated entities that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors in our common shares.

F. *Tabular disclosure of contractual obligations.*

The following table sets forth, as of December 31, 2005, our commitments and contractual obligations for the following five years and thereafter. The long-term debt obligations are our cash debt service obligations. Operating lease obligations are the future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2005.

Contractual obligations	Total (in thousands)	Payments due by period Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations, including interest (subordinated loans)	701	206	257	230	8
Operating lease obligations	142,630	34,403	49,492	44,500	14,235
Capital (finance) lease obligations	1,168	606	562		
Purchase obligations	34,653	6,887	8,270		19,496
Pension plan obligations	113,224	26,162	30,267	37,257	19,538
Other long-term liabilities reflected under IFRS	98,532	92,198 (1)	4,219	1,610	505
Total	390,908	160,462	93,067	83,597	53,782

(1) Refers to a bridge loan related to the acquisition of BBL, which was refinanced with long-term debt in the beginning of 2006.

In the table above, for purposes of estimating the amount of future funding of our pension plan obligations, we have assumed (1) an annual growth in the salary-level of 2.5%, (2) a fixed level of the total pension premium of 18.3% on total salaries, and (3) a gradual increase in the total staff covered by the pension fund, to 2,500 in 2011 from 1,723 in 2006. The Total amount covers the period through December 31, 2011. The pension plan obligation in the More than 5 years column is the obligation for 2011 only. We believe that cash generated from operations, together with our existing financing arrangements will be sufficient to meet our working capital and capital expenditure requirements for 2005.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. ***Directors and senior management.***

None of the members of our Supervisory Board and Executive Board, Corporate Directors, and Senior Management Committee have any family relationships between and amongst each other. Additionally, none of the following individuals have entered into any arrangement or understanding with a third party, pursuant to which the person was selected for his respective position.

Supervisory Board

The following table presents information about our Supervisory Board members following our Annual General Meeting of Shareholders, which was held on May 17, 2006:

Name	Year of Birth	Years Served In Office	Year Term Expires	Position
Rijnhard W.F. van Tets(a), (b)	1947	4	2010	Chairman
Carlos Espinosa de los Monteros(b)	1944	8	2010	Vice-Chairman
Thomas M. Cohn(a)	1942	2	2008	Member
George R. Nethercutt, Jr.(a)	1944	1	2009	Member
Jan Peelen(b)	1940	6	2008	Member
Gerrit Ybema(b)	1945	3	2007	Member

(a) Member of the Audit Committee

(b) Member of the Selection and Remuneration Committee

Jhr. Drs. Rijnhard W.F. van Tets, age 59, was appointed to our Supervisory Board in 2002, and currently serves as our Chairman. He also serves as a member of our Supervisory Board s Audit Committee, and chairman of the Selection and Remuneration Committee. Currently, Mr. van Tets serves as an advisor to the Executive Board of ABN AMRO Bank, after serving as a member of the Executive Board from 1988 until 2001. He also served in a variety of positions while at ABN AMRO Bank, including: Chairman of the Investment Banking Division from 1990 to 2001, Senior Executive Vice President from 1986 to 1988, and Executive Vice President of the Corporate Banking Division from 1983 to 1986. From 1977 until 1983, Mr. van Tets served as Vice President of Corporate Finance with First Boston Corporation. He currently serves as a non-executive board member of the following entities: Euronext Amsterdam N.V., Equity Trust SARL, International Flavors & Fragrances I.F.F. (the Netherlands) Holding B.V., Wegener N.V., and Investment Committee Pension Fund Building Industry. Mr. van Tets earned a Masters in Law and Business Administration from the University of Leiden.

Mr. Carlos Espinosa de los Monteros, age 62, was appointed to our Supervisory Board in 1998. He also serves as a member of our Supervisory Board s Selection and Remuneration Committee. Mr. Espinosa currently serves as Chairman and Chief Executive Officer of Mercedes Benz Espana S.A. and Daimler Chrysler Espana Holding. He served as President of IBERIA S.A. from 1983 until 1985. From 1979 until 1983, Mr. Espinosa served President of the National Institute for Industry (INI) in Spain. Mr. Espinosa currently serves as a non-executive board member of Acciona S.A., Inditex S.A. (Zara) and Gonzalez Byass S.A.

Mr. Thomas M. Cohn, age 63, was appointed to our Supervisory Board in 2004. He also serves as chairman of our Supervisory Board s Audit Committee. From 1994 until 2003, Mr. Cohn served as Chairman of the Executive Board of Siemens Nederland N.V. and Chief Executive Officer of the Siemens Group in the Netherlands. Mr. Cohn retired from the Siemens Nederland NV Executive Board in 2003. From 1987 until 1994, Mr. Cohn was the Chief Financial Officer and an Executive Board member of Siemens Nederland N.V. From 1967 until 1987, he held various positions, such as director of Economic Affairs, with Siemens Belgium. He started his career in 1964 with Siemens AG in Germany. Mr. Cohn also serves as a non-executive board member of the following entities:

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Getronics Holdings B.V., Corus Nederland B.V., KEMA NV, Advisory Board Fortis Bank Rotterdam, Recontec B.V., Tecosa (Spain), Pereira Van Vliet & Partners (Chairman), Monitoring Board University of Technology Delft, Advisory Board of Comsec Consulting group, Advisory board Oracle Nederland B.V., and Foundation Techniques and Marketing-STEM.

Mr. George R. Nethercutt, Jr., age 61, was appointed to our Supervisory Board by the General Meeting of shareholders held on May 11, 2005. Mr. Nethercutt also serves as a member of our Audit Committee. He currently serves as a member of the Board of Directors of Hecla Mining Company, The Washington Policy Center and Isothermal Systems Research. From 1994 until January 2005, Mr. Nethercutt served as a member of the United States House of Representatives. He served on the Appropriations Committee and the Defense, Interior and Agriculture Subcommittees. From 1977 to 1994, Mr. Nethercutt practiced law in the private sector, focusing on corporate, estate and probate and adoption law.

Drs. Jan Peelen, age 66, was appointed to our Supervisory Board in 2000. He also serves as a member of our Supervisory Board s Selection and Remuneration Committee. Mr. Peelen retired from employment with the Unilever group of companies in 2000. From 1987 until 2000, Mr. Peelen was a member of the Executive Board of Unilever N.V. and Unilever PLC, from 1996 till 2000 he also served as a member of the Executive Committee of Unilever, as the director of Human Resources. Mr. Peelen has served in several international management positions within Unilever or its subsidiaries since 1966. Mr. Peelen also serves as a non-executive board member of the following entities: Albron B.V., Royal Friesland Foods N.V., Buhrmann N.V., VVAA Group B.V. (Chairman), and National Regie-Orgaan Genomics.

Drs. Gerrit Ybema, age 60, was appointed to our Supervisory Board in 2003. He also serves as a member of our Supervisory Board s Selection and Remuneration Committee. From 1998 until 2002, Mr. Ybema served as the Secretary of State for Economic Affairs in the Netherlands. He has served in a variety of governmental positions at the local and state level from 1989 until 1998, including positions with the city of Enschede and the province of Friesland. He currently serves as a non-executive board member of the following entities: Monitoring Board Zorggroep Noorderbreedte, ROC Friese Poort, Consultative Organ Frisian Language and Culture, Fair Wear Foundation, and Foundation Frisian Harbour Days. Mr. Ybema earned an economics degree, with a specialization in economic relations from Rijksuniversiteit Groningen.

Executive Board

The following table presents information about our current Executive Board members:

Name	Year of Birth	Years Served In Office	Position
Harrie L.J. Noy	1951	11	Chairman
C. Michiel Jaski	1959	5	Member
Friedrich Schneider	1962		Member
Ben A. van der Klift	1959		Member

Harrie L.J. Noy, age 55, was appointed to our Executive Board in 1994. He currently serves as Chairman of our Executive Board and has held this position since 2000. Prior to joining our Executive Board, Mr. Noy served as Managing Director of Heidemij Advies B.V. from 1990 until 1994. He joined the company in 1975. Mr. Noy also serves as a non-executive board member of the following entities: Foundation Habiforum, Foundation PSIB, Advisory Board Euronext, VEUO (The Dutch Association of Listed Companies), Foundation Management Studies (SMS), VNO-NCW, High Level Group European Construction and Technology Platform, Supervisory Board University of Arnhem-Nijmegen, Supervisory Board NV Dutch Gas Transport Services BV and Supervisory Board Foundation Vilente.

C. Michiel Jaski, age 47, was appointed to our Executive Board in 2000. Prior to joining us, he served in a variety of positions at Polyesters Plastics Packaging Shell Chemicals Ltd., including: Global Vice President from 1999 to 2000, Global Marketing & Sales Director from 1998 to 1999, Business Unit Manager Europa Shell Chemicals Ltd. from 1992 to 1998, Sales Manager Benelux Shell Nederland Chemie from 1990 to 1992, and Product Manager Shell Nederland Chemie from 1988 to 1990. From 1986 until 1987, Mr. Jaski served as the Project

Manager of Information Technology Philips UK and Philips Belgium. Mr. Jaski also serves as a non-executive board member of the following entities: Vice-Chairman of the Foundation Delta (primary education), the Netherlands Committee IUCN (The World Conservation Union), Dutch-German Chamber of Commerce, Foundation Toekomstbeeld der Techniek and University Fund Delft.

Friedrich Schneider, age 44, was appointed to our Executive Board in May 2006. He will serve as a member of our Executive Board with responsibilities for operations in South America and Asia and also for strengthening the infrastructure business of the company. He will also serve as a member of the ARCADIS N.V. Priority Foundation. Prior to joining us, Mr. Schneider served on the Executive Board of Rheinhold & Mahla AG, an industrial services company, in Munich from 2004 to 2005 and was responsible for the Western Europe and Technologies Divisions. From 2001 until 2004, Mr. Schneider served as a managing director of Bilfinger Berger AG, first in the International Division (2001-2002) and then in the Civil Division (2002-2004). Mr. Schneider has also served in various capacities at Bentec GMBH Drilling and Oilfield Systems (1999-2001), Preussag AG 1996-1999), Preussag International GMBH (1993-1996), Metallgesellschaft Services (1990-1993). Mr. Schneider received a Masters of Art (Economics) at the State University of New York in Albany and a PhD in Economics from the European University Institute, Florence.

Ben A. van der Klift, age 46, was appointed to our Executive Board in May 2006. He will serve as a member of our Executive Board and will serve as Chief Financial Officer. Mr. Van der Klift joined us in January 2005 as Corporate Director Finance. Prior to joining us, he served as Financial Director of PRC Bouwcentrum BV in Bodegraven from 1997-2005. From 1991-1997, Mr. Van der Klift served as Controller of DHV Milieu en Infrastructuur and DHV AIB. He began his career at De Rotterdamsche Droogdok Maatschappij in Rotterdam (1987-1991). Mr. Van der Klift received a degree in Social Geography at the University in Utrecht (1981-1984), a Master of Business Administration at the Erasmus University in Rotterdam (1984-1988) and he took courses for corporate controllers at Vrije Universiteit Amsterdam (1989-1994).

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Corporate Directors

The following table presents information about our current Corporate Directors:

Name	Year of Birth	Years Served In Office	Position
Hans van Dord	1944	5	Corporate Director of Business Development
Wim G.M. Rupert	1945	12	Corporate Director of Human Resources
Craig E. Eisen	1951	4	Corporate Director of Mergers and Acquisitions

Hans van Dord, age 61, was appointed Corporate Director of Business Development in 2000. Prior to that appointment he has served in various senior management positions in different ARCADIS operating companies. Mr. Van Dord has been with our company since 1985. Prior to joining us, Mr. Van Dord worked on urban and rural planning and design projects on behalf of the Dutch government from 1972 to 1985.

Wim G.M. Rupert, age 60, was appointed as Corporate Director of Human Resources in 1994. In 1987 Mr. Rupert joined us in the function of Training Manager. Prior to joining us, he held several positions in public education in the Netherlands.

Craig E. Eisen, age 54, was appointed as Corporate Director of Mergers and Acquisitions in 2002. Prior to joining us, he held the position of Vice President Corporate Programs and was a member of the Executive Board of Tetra Tech, Inc. from 1994 to 2002. From 1981 to 1996, Mr. Eisen also served in a number of positions at Hydro-Search Inc., including as President from 1991 to 1997, as Vice President of Operations from 1988 to 1991 and as a member of the Board of Directors from 1988 to 1994. Prior professional positions include Principal Hydrogeologist at the Water Resources Research Institute, University of Wyoming from 1979 to 1981 and Hydrogeologist/Resident Engineer for the U.S. Agency for International Development Kenya from 1978 to 1979.

Senior Management Committee

The following table presents information about our current Senior Management Committee members:

Name	Year of Birth	Years Served In Office	Position
Steven B. Blake	1956	2.5	CEO ARCADIS G&M
Javier Hurtado	1955	2	CEO ARCADIS Geotecnica
Douwe J. Kras	1948	2	Managing Director ARCADIS Nederland
Yann Leblais	1952	6	CEO ARCADIS FCI
Antonio J.O. Rocha	1941	7	CEO ARCADIS Logos
Kees T. Slingerland	1960	4	Managing Director ARCADIS Nederland
Ludo Smans	1947	10	Managing Director ARCADIS Belgium
Marek Adamek	1960	2	Managing Director ARCADIS Polska
Leo van der Kemp	1956	2.5	Managing Director PRC
Peter J. Vince	1958	1	Managing Director of AYH;
Robert K. Goldman	1957	5	CEO Blasland, Bouck & Lee, Inc.
Ulrich Behr	1952	1	CEO ARCADIS Deutschland GmbH

Steven B. Blake, age 49, was appointed to our Senior Management Committee in 1995. From 1999 until 2003, Mr. Blake served as a member of our Executive Board, from which he stepped down in November 2003 on his own request. Since that date he serves (again) as the Chief Executive Officer of ARCADIS G&M, Inc. He has served in a

number of positions at Geraghty & Miller, including: President from 1994 to 1996, Vice President Programs & Strategic Operations from 1991 to 1994, and Director of Hydrocarbon Services Division from 1989 to 1991. Following our acquisition of Geraghty & Miller in 1994, Mr. Blake served as Chief Executive Officer of

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ARCADIS Geraghty & Miller, Inc., from 1996 until 1999. Mr. Blake also serves as a non-executive board member of the following entities: Construction Industry Roundtable, the U.S. National Water Well Association and the Federal Relations Committee (CIRT).

Javier Hurtado, age 50, industrial engineer, was appointed as Chief Executive Officer of ARCADIS Geotécnica in February 2004. Prior to joining ARCADIS he acted as Chief Executive Officer in companies from different fields of activity such as real estate, developing and managing private schools in Chile (2002-2003), developing and managing hotels and tour agencies in Croatia (2000-2002), ports (Ventanas Chile), airports (Santiago International Airport) (1993-2000), mining companies (Cominor and ENAMI) (1992-1993), insurance (Les Mutuelles du Mans Assurance Chile)(1989-1992). Mr. Hurtado has been member of the board of directors in a variety of companies in a broad range of businesses. He has also served as an advisor for the chamber of industries, chamber of construction and other think tanks in environmental issues, and currently holds the position of President of the Environmental Committee in the Chilean chamber of construction.

Douwe J. Kras, age 57, joined the company as a member of the Board of ARCADIS Nederland B.V. in May 2004, and he has been appointed Chairman of the Board of ARCADIS Nederland B.V. effective as of July 2004. Until 2004, Mr Kras was CEO of PRC B.V., a consultancy firm that we acquired in 2003 and that specializes in project management. He worked with PRC B.V. for 25 years. Mr Kras is member of several Supervisory Boards in the fields of Health Care, Social Housing and Culture.

Yann Leblais, age 53, was appointed to our senior Management Committee in 2002. He currently serves as CEO in ARCADIS FCI and has held his position since 2000. He also serves as CEO of ARCADIS ESG (former EEG SIMECSOL before we acquired it in 2002) and has held his position from 1995. He joined SIMECSOL in 1979 and served in a number of positions, including: Executive Vice President from 1990 to 1995 and Head of the Geotechnical & Civil Division from 1985 to 1990. Yann Leblais is currently Chairman of the Board of SYNTEC INGENIERIE, the French Consulting Association, and also serves in key positions in both French and International Tunneling Associations.

Antonio João Oliveira Rocha, age 65, was appointed to the Senior Management Committee in 2000. He currently serves as Chief Executive Officer of Logos Engenharia S.A., our leading Brazilian company, and has held this position since 1999. Prior to becoming Logos CEO, from 1987 to 1999 Mr. Rocha served as Technical Director, and from 1977 to 1986 he served as Project Manager at Logos. From 1986 to 1987 he worked as deputy secretary in the Planning Secretariat of São Paulo State Government. Before joining Logos he worked at São Paulo Metro Company and Rhodia, Brazilian subsidiary of French Rhône Poulenc. Mr. Rocha worked at two Brazilian universities from 1966 until 1972.

Kees T. Slingerland, age 46, was appointed to our Senior Management Committee in 2000. At that time, he joined us as managing director of ARCADIS Heidemij Advies B.V.; from 2002 on he has been the managing director of ARCADIS Netherlands B.V.. Before he joined us, Mr. Slingerland worked for the Dutch Ministry of Agriculture, from 1985 to 1989, for the NEHEM Consulting Group in Hertogenbosch and in Budapest as director international development from 1989 to 1995 and as managing director for the Flower Auction in Bleiswijk from 1995 to 2000. Mr. Slingerland also serves as a non-executive board member of CUR (Civil Centre for Engineering, Research and Codes) and of NOVIB Oxfam Netherlands (international developing aid) and as member of the advisory board Rural Developments of the Innovation Network Rural Areas and Agricultural Systems.

Ludo Smans, age 57, was appointed to our Senior Management Committee in 1999. Founder and President of the former Gedas, which company was acquired by Heidemij Group in 1995. He has held the position of Chief Executive Officer of ARCADIS Belgium since 1995. Prior to founding Gedas in 1981, Mr. Smans served in a number of positions at VEHA Radiators Herentals (Rijn Schelde Verolme) from 1971, including as Administrative Director from 1976 to 1981.

Marek Adamek, age 46, was appointed the Managing Director of ARCADIS Polska in 2005. From 1991 to 2004, he served as the Chief Executive Officer of Ekokonrem, an environmental company which he established and was acquired by the Heidemij Group in 1994. Prior to 1991, Mr. Adamek worked in a geological state-on company, as hydrogeologist and Project Manager.

Leo van der Kemp, age 50, was appointed the managing director of PRC in 2004, He has a background in public services. From 1985 to 1992 he was involved in the housing of Dutch Universities, University Hospitals and other educational facilities. Until 1995 he was responsible for decentralization-operations of the Dutch ministry of Education and Science. From 1995 until 2004 he was director of the division Projectmanagement and Consultancy of PRC B.V.

Peter J. Vince, age 48, was appointed to the Senior Management Committee of ARCADIS in 2006. Mr. Vince is Managing Director of AYH plc, a cost and project management consultancy business that was acquired by ARCADIS in June 2005. Mr Vince joined AYH in 1994 and has been a director since 1999 taking over the role of managing director in 2003. Prior to AYH, Mr. Vince has undertaken employment in both consultancy and contracting organizations spanning to date a 30 year career in the construction and property industry.

Robert K. Goldman, age 48, was appointed to the Senior Management Committee in 2006, when he joined the company with the acquisition of Blasland, Bouck & Lee, Inc. (BBL). Mr. Goldman currently serves as CEO and Chairman of the Board of BBL. Mr. Goldman joined BBL in 1984, and held positions of increasing responsibility at the firm until the firms acquisition by ARCADIS in 2005. Mr. Goldman is also active in a leadership role in several community organizations in New York State.

Ulrich Behr, age 53, was appointed CEO of ARCADIS Germany in November 2005. Ulrich Behr is an engineer who worked as board member of HL-Technik AG, Germany s largest engineering practice for building services until 1998. From then until 2002 he was the managing director of Josef Gartner GmbH, Germany s number one curtain wall contractor. During this time he merged the company with Permasteelisa spa, the world s largest façade contractor, which is listed at the Milano stock exchange. From 2003 unto October 2005 he was the CEO of Bug-Alutechnic GmbH, Austria s most prominent façade contractor. Ulrich Behr is also lecturing at different universities in Germany.

B. ***Compensation.***

Description of Compensation

The aggregate compensation, including directors fees and bonuses, paid or accrued to all of the members of our Supervisory Board and Executive Board as a group (12 persons) during the fiscal year ended December 31, 2005, was 1.4 million. The aggregate amount set aside or accrued to provide pension, retirement and similar benefits for all of the members of our Supervisory Board and Executive Board as a group during the fiscal year ended December 31, 2005, was 0.1 million. Please see Item 6.E for a description of our various stock option plans and details of the options granted under those plans.

Supervisory Board Members

Compensation for members of our Supervisory Board is determined by the General Meeting of Shareholders. For 2005, each of our Supervisory Board members was paid a base rate of compensation equal to 25,000, while the Chairman s compensation was 37,500. In addition, the members of the Supervisory Board receive annual compensation for expenses, which for the Chairman is 3,000, for Dutch members is 2,000, for the Spanish member is 10,000 and for the U.S. member is $15,000 per year. Supervisory Board members who serve on our Audit Committee and our Selection and Remuneration Committee will be paid annually 5,000 per committee. Our Supervisory Board members are not eligible to receive options.

The following table details the amount of compensation paid to each of our Supervisory Board members in 2005.

Name	Compensation (in thousands)
Rijnhard W.F. van Tets	50
Ross A. Webber*	30
Thomas M. Cohn	30
Carlos Espinosa de los Monteros	30
George R. Nethercutt**	13
Jan Peelen	30
Gerrit Ybema	33

* Mr. Webber stepped down on May 17, 2006.

** Mr. Nethercutt took office on May 11, 2005.

Executive Board

The compensation of members of our Executive Board is determined by the Supervisory Board based on recommendations of our Selection and Remuneration Committee. Our policy is to compensate our senior executives at market rates while considering our size and characteristics. The goal of our compensation scheme is to provide our Executive Board members with short-term and long-term incentives, so that their interests are aligned with those of our shareholders. In the fall of 2004, we engaged an external consultant to make recommendations regarding our remuneration policy in light of the demands imposed by the Dutch Corporate Governance Code. Our new remuneration policy was presented to and approved by our shareholders at the General Meeting of Shareholders on May 11, 2005. For 2005, our compensation packages include the following components:

- *Fixed salaries.* The fixed portion of the overall compensation package is adjusted annually by the Supervisory Board based on recommendations from the Selection and Remuneration Committee. In 2005, the fixed portion paid to our Executive Board members was increased by 5%, which includes an annual adjustment based on general market trends and company-specific factors.

- *Short term flexible remuneration.* Under our policy adopted in 2005, the annual short-term variable bonuses are linked to the achievement of certain financial and non-financial goals. The short-term variable bonus can very from 0% - 60% of the executives fixed salary. The financial and non-financial goals are set annually by the Supervisory Board. It is expected that financial goals will determine 75% of the bonus and 25% will be determined by non-financial goals.

- *Long-term flexible remuneration.* The long-term variable remuneration consists of performance-related rights to acquire ARCADIS shares, such as options, appreciation rights and restricted stock. Each member of our Executive Board will receive, on an annual basis, 15,000 options and 7,000 shares of restricted stock. Additionally, the chairman of the Executive Board will receive an additional 10,000 options and 3,000 shares of restricted stock. Options and restricted stock are granted on a conditional basis and vest depending on the achievement of certain performance measures. Members of our Executive Board are granted options by the Supervisory Board based on the recommendations of the Selection and Remuneration Committee.

- *Compensations and other fringe benefits.* Members of our Executive Board receive reimbursement for expenses and other fringe benefits customary in the industry, such as a company car.

- *Pensions.* As of January 1, 2004, our pension plan was changed to a defined contribution plan. The premium paid by members of our Executive Board is based on the goal to achieve a target payment equal to what would have been received under our pension plan.

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The following table details the amount of compensation paid to each of our Executive Board members in 2005.

Name	Fixed Salary*	Bonus*	Pension Premium*	Options Granted**	Performance Shares**
Harrie L.J. Noy	339	175	79	25,000	10,000
C. Michiel Jaski	254	130	30	15,000	7,000

* in thousands

** in shares

C. *Board practices.*

The length of each director s and officer s term in office, if applicable, is described above in Section A. Consistent with the Dutch Code on Corporate Governance, the new members of the Executive Board, Messrs. Schneider and Van der Klift, will be appointed for a maximum period of four years and may be re-appointed for a term of not more than four years. Also consistent with the Code, the maximum remuneration payable to a new Executive Board member in the event of dismissal is equal to one year s salary. All our other directors and officers have employment contracts that have unlimited duration. The employment agreements with our Executive Board members Noy and Jaski provide not for for benefits or other compensation upon the termination of employment.

Audit Committee

Our Supervisory Board Audit Committee is responsible for reviewing and monitoring our financial statements and internal accounting procedures, approving the scope and terms of audit services to be provided by our independent auditor and monitoring the services provided by our independent auditor. Our Audit Committee reviews all periodic financial reports and conducts separate meetings with management, and the independent auditors to review the accuracy of such reports. Our Supervisory Board adopted our Audit Committee Charter and established the Audit Committee in November 2002, and our Audit Committee held its first meeting in January 2003. Our Audit Committee oversaw the implementation of IFRS in fiscal 2005.

For the year ended December 31, 2005, Mr. Cohn, Mr. van Tets, and Mr. Webber served as members of the Audit Committee, and each member qualified as an independent member of the Audit Committee as defined by the Nasdaq National Market and the U.S. Securities and Exchange Commission. Mr. Cohn served as the Chairman of the Audit Committee during 2005 and will continue to serve as Chairman during 2006. Our Audit Committee has one member, Mr. van Tets, who qualifies as an audit committee financial expert as defined by the U.S. Securities and Exchange Commission. Beginning May 17, 2006, the Supervisory Board s Integrity Committee has been integrated into the ARCADIS Audit Committee. Also from that date, Mr. Nethercutt joined the ARCADIS Audit Committee while Mr. Webber stepped down.

Selection and Remuneration Committee

Our Supervisory Board Selection and Remuneration Committee is charged with selecting and nominating candidates for appointment to the Supervisory Board and the Executive Board. In addition, this committee advises the Supervisory Board on the following matters: the size and composition of our Supervisory Board, compensation of the members of our Executive Board and our Senior Management Committee, our option plan policy, and the award of options and shares under existing share option plans.

For the year ended December 31, 2005, Mr. van Tets, Mr. Espinosa, Mr. Peelen, and Mr. Ybema served as members of the Selection and Remuneration Committee, and Mr. van Tets serves as Chairman.

D. *Employees.*

As of December 31, 2005, we had 9,143 employees, compared to 9,638 at the end of December 31, 2004. For 2005, the average number of employees was 9,208, compared to 9,419 in 2004.

As of December 31, 2005, the geographic breakdown of our employees was as follows:

Region	2005	2004	2003
Netherlands	2,389	2,346	2,774
Other European countries	2,751	4,000	3,446
United States	3,098	2,222	2,022
Rest of World	905	1,070	1,035

These numbers represent employees who are on the ARCADIS payroll. Including temporary and other staff, capacity at year-end 2005 totaled 10,101 employees compared to 10,474 in 2004. The decline in the number of employees was mainly the result of the sale of the 50% interest in Grupo EP in Spain with more than 1,700 employees. Because 52% of the Grupo E.P. staff had a temporary contract, in 2005, the percentage of our employees with a temporary contract decreased from 18% on January 1, 2005 to 6% on December 31, 2005.

A small minority of our employees are members of a union. The relationship between management and the labor unions is good.

E. *Share ownership.*

Capital Stock

The following table discloses, as of December 31, 2005, interests held in our share capital by members of our Supervisory Board and our Executive Board:

Name	Number of Shares(1)	Percentage of Outstanding Capital
Rijnhard W.F. van Tets		
Ross A. Webber	1,130	*
Th. M. (Thomas) Cohn		
Carlos Espinosa de los Monteros		
J. (Jan) Peelen		
Gerrit Ybema		
George R. Nethercutt		
Harrie L.J. Noy	34,122	*
C. Michiel Jaski	1,719	*

* Less than 1%

The members of our management hold our common shares and have no greater rights than those provided to non-management holders of our shares.

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Stock Options

The following table discloses, as of December 31, 2005, stock options held by members of our Executive Board:

Name	Option Plan*	Grant Year	Number Granted	Exercise Price	2005 Exercises	Number Outstanding	Expiration Date
Harrie L.J. Noy							