ARCADIS N V
Form 20-F
June 13, 2005

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

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

For the fiscal year ended December 31, 2004

OR

o TRANSITION REPORT 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)

Utrechtseweg 68, 6812 AH 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:

20,308,742 SHARES OF COMMON SHARES, 0.05 NOMINAL VALUE

200 PRIORITY SHARES, 0.05 NOMINAL VALUE

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 ý No o

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

o Item 17 ý Item 18

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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 five years during the period ended December 31, 2004 have been derived from our audited Consolidated Financial Statements. The selected consolidated financial data as of and for each of the three years during the period ended December 31, 2004 are derived from, and 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, 2004 as presented in Euros have been translated into U.S. dollars. The exchange rate used is $1.00 = 0.73416, the exchange rate as of December 31, 2004. 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.

We prepare our Consolidated Financial Statements in accordance with accounting principles generally accepted in the Netherlands (Dutch GAAP), which differs in certain significant respects from accounting principles generally accepted in the United States (U.S. GAAP). See Note 17 to our Consolidated Financial Statements for the years ended December 31, 2004, 2003 and 2002 included in Item 18 of this annual report for a description of the principal differences between Dutch GAAP and U.S. GAAP as they relate to us and our consolidated subsidiaries, as well as a reconciliation to U.S. GAAP of net income and shareholders equity. Starting in 2005, ARCADIS applies the International Financial Reporting Standards (IFRS) as the basis for its financial reporting. This means that the quarterly reports during 2005 will be presented in line with the IFRS standards. For this purpose, the 2004 quarterly figures have been adjusted for comparison purposes. The impact of this change in valuation principles and related reporting is not material to ARCADIS. For more information on the changes and the related financial effects please refer to Item 5.D of this annual report.

	For the years ended December 31,					
	2004	2004	2003	2002	2001	2000
	$					
	(in millions, except per share amounts)					
Consolidated Statement of Income Data (a)						
Amounts in accordance with Dutch GAAP						
Gross revenue	1,227.0	900.8	840.6	819.1	797.4	776.2
Net revenue	861.6	632.5	595.4	577.8	563.5	550.9
Operating income	44.5	32.7	34.9	42.7	38.8	35.2
Income from operations before taxes	39.8	29.2	32.0	40.5	36.1	31.8
Income from operations after taxes	26.7	19.6	20.3	26.1	23.6	20.7
Group income from operations after taxes	30.0	22.0	22.9	26.7	24.2	21.5
Net income	27.4	20.1	21.4	24.7	25.1	20.7
Basic net income per common share	1.36	1.00	1.07	1.23	1.24	1.04
Diluted net income per common share	1.34	0.99	1.06	1.22	1.23	1.04
Average number of shares	20.140	20.140	20.005	20.129	20.280	20.022
Dividend per common share (b)	0.65	0.48	0.48	0.48	0.44	0.39
Amounts in accordance with U.S. GAAP						
Gross revenue(c)	1,111.4	815.9	776.2	754.3	739.6	729.4
Net revenue(c)	794.9	583.6	555.9	543.8	532.5	524.5
Operating income(c) (f)	28.9	21.2	33.7	38.4	39.7	39.7
Net income(d) (f)	20.5	15.0	22.6	23.3	24.5	24.3
Basic net income per common share(e) (f)	1.02	0.75	1.13	1.16	1.21	1.21
Diluted net income per common share (e) (f)	1.00	0.74	1.13	1.15	1.20	1.21

	As of December 31,					
	2004 $	2004	2003	2002	2001	2000
	(in millions)					
Consolidated Balance Sheet Data (a)						
Amounts in accordance with Dutch GAAP						
Total assets	531.9	390.5	347.3	343.8	309.9	298.8
Long-term debt	16.4	12.0	29.7	27.6	22.0	23.1
Common stock	1.4	1.0	1.0	1.0	1.0	1.0
Shareholders equity	198.4	145.7	136.5	134.7	133.7	115.2
Amounts in accordance with U.S. GAAP						
Shareholders equity (g)	215.7	158.3	173.3	162.9	228.3	208.5

(a) The Dutch company ARCADIS Aqumen Facility Management B.V. and the Spanish company Grupo EP S.A., in both of which we hold a 50% interest, are included in our consolidated financial statements on a proportional basis in conformity with Dutch GAAP. Under U.S. GAAP, such investments would be accounted for under the equity method. This variance from U.S. GAAP has no effect on shareholders equity or net income. Additional information is provided in Note 17 to our Consolidated Financial Statements.

(b) 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: $0.63 in 2004; $0.59 for 2003; $0.56 for 2002, $0.42 for 2001, and $0.33 for 2000. The dividend payment of 0.48 per outstanding share of common stock for the year ended December 31, 2004, was presented to and approved by our shareholders at the Annual General Meeting of Shareholders on May 11, 2005.

(c) 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 and ARCADIS Aqumen Facility Management B.V. For more information please refer to Note 17 of the financial statements in this annual report.

(d) Net income in 2001 of 25.1 million, calculated in accordance with Netherlands GAAP, 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).

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

(f) Over 2003, contributions made by employees to the pension fund were mistakenly presented as costs accounted for by ARCADIS N.V. Net income in accordance with U.S. GAAP as restated is presented in the table below:

U.S. GAAP Reconciliation Adjustment **(Amounts in millions of Euros, except per share amounts)**	**2003**
Net income, as reported earlier	20.342
Adjustment for decrease in pension costs	3.480
Tax effect	(1.218)
Restated net income	**22.604**
Basic net income per share, as reported earlier	1.00
Diluted net income per share, as reported earlier	1.00
Restated basic net income per share*	**1.13**
Restated diluted net income per share*	**1.13**

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* The higher per share income is not only caused by the adjustment in pension costs, but also by a reduction in the number of shares used to calculate income per share, as shares purchased by the company for option plans are excluded from this calculation. The original number of shares used to calculate basic net income per share in 2003 was 20,363,726, which mistakenly included 358,512 treasury shares purchased for option plans. The corrected number of shares is 20,005,214. The original number of shares used to calculate diluted net income per share in 2003 was 20,374,632. The corrected number of shares is 20,069,107.

(g) The U.S. GAAP information for the four years ended December 31, 2003, has been adjusted related to prior reconciliations between Dutch and U.S. GAAP. For additional information, see Note 17(c).

Exchange Rate Information

On March 31, 2005 the exchange rate between the Euro and U.S. dollar was 0.77 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, 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
Year ended December 31, 2000	1.21	0.96	1.09	1.07

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

Period	**High**	**Low**
March 2005	0.77	0.75
February 2005	0.78	0.75
January 2005	0.77	0.75
December 2004	0.76	0.73
November 2004	0.78	0.75
October 2004	0.82	0.78

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.

Of our business, approximately 50% 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 negative material adverse effect on our ability to attract and/or retain business.

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

Approximately 50% of our revenues are 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. Our buildings 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 very negative effect on companies abilities to invest. This occurred most recently 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 buildings 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, contract awards can cease or employee security can be at issue, 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. Construction fraud in the Netherlands has resulted in greater scrutiny of the bidding procedures and has resulted in delays in contract awards. Centralization and strengthening of the purchasing function in large companies may also affect our opportunities to secure profitable 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. 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 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 can 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 revenue is derived from projects in which we partner with others through joint ventures, 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 effected.

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 constructions 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 malfunctioning of these systems, including both hardware and software, can negatively effect 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.

We have completed 14 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 effecting 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, 2004, we had borrowed 9.8 million under our short-term credit facility and had a total of 172 million available at year-end. Fluctuations in our working capital, which includes our work in progress and trade receivable 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.

ITEM 4. INFORMATION ON THE COMPANY

A. *History and development of the company.*

Introduction

We are an international provider of comprehensive knowledge-based consulting services in the areas of infrastructure, environment and buildings. ARCADIS N.V. is a public company organized under the laws of the Kingdom of the Netherlands on August 16, 1982. 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: Utrechtseweg 68, 6812 AH, 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 80129 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:

- Organic growth in the existing core activities;
- Development of new products and services;
- Margin improvements; and
- Acquisitions.

Following is a brief description of the progress made in each of these areas in 2004.

Organic growth in core activities increases

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 2004, our organic growth was 5%, compared to 1% in 2003, despite declines in the Netherlands and Germany due to market conditions. We believe that the improvement in our organic growth rate is attributable to better use 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.

Development of new products and services

The development of new products and services has also increased organic growth. In 2004, all of our operating companies produced a list of the innovations they have under development. They have also implemented initiatives to develop new products and services on the basis of existing competencies in an effort to benefit from growth opportunities in their respective markets. An example is the RECLAIM (Redevelopment, Closure, Asset and Industrial Management) program, a new approach to remediating contaminated industrial sites, in which we not only provide the remedial environmental solution but also facilitate site redevelopment. Another new important activity is facility management, which is marketed through a joint venture with U.K.-based Mowlem Aqumen, a provider of facility management services in both the private and public sectors across a range of market sectors, including financial services, retail and defense, and a subsidiary of Mowlem plc. We entered into several small facility management contracts in 2004, which contributed to organic growth, but we did not achieve our goal of entering into a new large contract as we had with Philips Nederland in 2003. We have continued to focus on DBFO projects, which involve the delivery of a total solution, including designing, building, possibly financing, as well as operating the business for a specific period. This area is developing slowly, and at the end of 2004, we decided to let our operating companies play an increased role in growing these types of projects.

Margin improvement

Margin improvement is a key component of our corporate strategy introduced in 2000. By margin, we mean operating income excluding amortization of goodwill and identifiable intangible assets as a percentage of net revenue. Excluding items that affect the comparability of results and excluding goodwill amortization, the margin increased to 6.3%, compared to 6.0% in 2003. Margin improvement in 2004 primarily focused on the communications and buildings service areas addressing the unfavorable market conditions in the Netherlands. Non-core businesses in communications were sold. A transition toward higher yielding management activities is ongoing in the buildings area, while detailed engineering activities are being reduced or outsourced. In the Netherlands, a significant restructuring was executed, in which non-core businesses were sold, the organization was streamlined, headcount was reduced and the pension plan was adjusted. See Note 16 to our Consolidated Financial Statements. We believe all of these actions will provide a basis for future margin improvement.

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 2004, we acquired the following five companies, all of which met our financial criteria:

Name	Country	Employees	Gross revenue (in millions)	Month consolidated
Terence Dudley	United Kingdom	25	2	July 2004
Profil	Poland	150	15	October 2004
Bessent, Hammack & Ruckerman Inc.	United States	100	10	November 2004
Diversity Partners	United States	130	18	December 2004
Witpaard	Netherlands	35	3	November 2004
Total		**440**	**48**	

Terence Dudley, specializing in civil engineering, and is an addition to our existing environmental activities in the English market. Through *Profil*, we gained a strong position in the Polish infrastructure market, which is expected to grow strongly because of Poland s accession to the European Union. *Bessent, Hammack & Ruckman* strengthens our position in the Florida infrastructure market; Florida is one of the fastest growing states in the U.S. The acquisition of *Diversity Partners* adds program and construction management capabilities in the U.S., and are marketed under the names *Construction Dynamics Group* and *Lewis & Zimmerman Associates*. *Witpaard* is an urban planning company, which we believe strengthens our position in the municipal market in the Netherlands.

The total investment in acquisitions in 2004 was 18.3 million, which resulted in additional goodwill of 13.3 million. A goodwill amount of 3.1 million is expected to be fully deductible for tax purposes. The goodwill paid in 2004 was assigned to our geographic segments as follows (in millions):

The Netherlands	0.6
United States	6.9
Europe	5.2
Other regions	0.6
Total goodwill paid	13.3

Of the 18.3 million invested in acquisitions in 2004, up to 3.5 million will be paid during 2005 and 2006.

B. ***Business overview.***

Development by Service Area

We provide consulting and engineering services in four principal geographic segments: the Netherlands, the United States, other European countries, and other regions. Our primary services areas in each of these geographic markets are infrastructure, environment, and buildings. Below please find 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 segments. Water management, infrastructure development for the energy sector and telecommunications activities are also a component of this business area. This service area s share of total gross revenue was 501 million, 485 million and 418 million in 2004, 2003 and 2002, respectively, and accounted for 56%, 57% and 51% of our total gross revenue in those years, respectively.

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 243 million, 223 million and 227 million in 2004, 2003 and 2002, respectively, and accounted for 27%, 27% and 28% of our total gross revenue in those years, respectively.

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, wastewater treatment, stabilization/solidification, landfill caps and containment, and air quality control;

Guaranteed Remediation Program, or 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.

Buildings

Our buildings area is focused on buildings in which people live, work, or relax. We engage in the building area in most of our geographic segments. This service area s share of total gross revenue was 144 million, 110 million and 105 million in 2004, 2003 and 2002, respectively, and accounted for 16%, 13% and 13% of our total gross revenue in 2004, 2003 and 2002, respectively.

Our activities in the buildings 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., ARCADIS Nederland B.V., ARCADIS Deutschland GmbH, Grupo EP SA, ARCADIS Euroconsult B.V., ARCADIS Belgium N.V. (including Gedas N.V.), ARCADIS FC International SAS, ARCADIS Logos Engenharia SA, ARCADIS Geotecnica Consultores SA, PRC Holding B.V., ARCADIS Aqumen Facility Management B.V., ARCADIS Geraghty&Miller International Ltd. and ARCADIS Polska.

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 segments and service areas. In the Netherlands, the European Union, the United States and outside the European Union, 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 50% 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, buildings.

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	USA
ARCADIS Nederland B.V.	100	The Netherlands
ARCADIS Deutschland GmbH	100	Germany
Grupo EP Ingenieria y Servicios Integrales SA(1)	50	Spain
ARCADIS Euroconsult B.V.	100	The Netherlands
ARCADIS Belgium N.V. (including Gedas 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
ARCADIS Polska	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, 2004, represented approximately 12% 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 220 local offices throughout the Netherlands, Europe, the United States, Asia, Africa, and Latin America. During fiscal 2004, aggregate annual rental payments on real estate leased by us approximated 38 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, 2004, no environmental issues exist at any of our facilities that may affect the utilization of such facilities.

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 three years ended December 31, 2004 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 the Netherlands law and Dutch GAAP. Dutch GAAP differs in certain respects from U.S. GAAP. See Note 17 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 segments: the Netherlands, the United States, other European countries, and other regions outside these areas. We provide these services in three principal service areas: infrastructure, environment and buildings. We discontinued our communications service area in 2004.

Non-GAAP Financial Measures

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

*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.*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.

Acquisitions/Divestments. We describe revenue growth from acquisitions/divestments to refer revenue growth resulting from the purchase or sale of companies and the internal growth in those companies as long as 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 refers to items that are not related to the actual operations of our business and that affect the comparability of results.

Net income from operations. Net income from operations refers to net income excluding the amortization of identifiable intangible fixed assets, excluding the costs related to pensions and excluding the costs related to option plans.

Reconciliation of Non-GAAP Financial Measures (Dutch GAAP)

	2004	2003	2002
Gross revenues			
Total gross revenues	900.8	840.6	819.1

Increase from preceding year	60.2	21.5	21.7
Breakdown of increases			
Acquisitions/divestments	36.3	69.9	32.2
Currency effect	(24.6)	(54.9)	(24.1)
Book gains on sale	6.5		
Organic growth	42.0	6.5	13.6
Operating income excluding amortization of goodwill and identifiable intangible assets			
Total operating income excluding amortization of goodwill and identifiable intangible assets	35,214	36,019	42,921
(Decrease)/increase from preceding year	(805)	(6,902)	4,076
Breakdown of (decreases)/increases			
Acquisitions/divestments	4,255	2,843	2,606
Currency effect	(1,230)	(1,973)	(1,956)
Organic growth	(3,830)	(7,772)	3,426
Non-operational	(4,417)		
Operational	587	(7,772)	3,426
Net income			
Net income	20,139	21,368	24,668
Amortization goodwill and identifiable intangible assets	2,558	1,157	191
Net income from operations	22,697	22,525	24,859
Increase/(decrease) from preceding year	1 72	(2,334)	1,684
Breakdown of increases/(decreases)			
Acquisitions/divestments	1,987	1,142	1,884
Currency effect	(689)	(1,365)	(869)
Organic growth	(1,126)	(2,111)	669
Non-operational	(1,366)		
Operational	240	(2,111)	669

Developments by Geographic Segment

Our organizational structure is primarily geographic, usually with one (at most 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 other regions.

The Netherlands

During 2004, market conditions remained difficult in the Netherlands. This was the result of low economic growth, reduced government spending, and long discussions about bidding procedures, leading to delays in project awards. Because of these conditions, organic gross revenue (gross revenue not attributable to acquisitions) in the Netherlands declined by 2%. The strongest decline occurred in infrastructure activities, while facility management developed positively.

PRC, which was acquired as of September 2003, was affected by the reduction in investments. In fall 2004, we acquired Witpaard, an urban development firm, to strengthen our position in the municipal market. The PRC acquisition and the sale of non-core activities on balance yielded 4% revenue growth. As a whole, gross revenue increased 2% to 301 million in 2004, compared to 296 million in 2003 and 297 million in 2002. Gross revenue from the Netherlands represented approximately 34% of our total gross revenue for 2004.

Market conditions necessitated a thorough restructuring consisting of:

Sale of non-core activities in an effort to focus on growth and margin improvement. We sold a part of our contracting activities, Kafi (property valuations) and Mandaat (collection agency) with a total of 275 employees and gross revenues in 2003 totaling 27 million.

Streamlining of the organization by reducing capacity in response to lower market demand and increasing efficiency through, among other things, overhead reduction. After 275 jobs were eliminated in 2003, an additional reduction of 205 jobs was necessary in 2004.

The restructuring had a negative effect on operating income, on balance of 4.4 million. Reduced market demand resulted in increased competition and margin pressure. Operating income before amortization of goodwill was 6.8 million in 2004, or 19% of total operating income before amortization of goodwill. Excluding the effects of this restructuring which affect the comparability of results, operating income before amortization of goodwill declined to 11.2 million, compared to 12.1 million in 2003 and 16.9 million in 2002. The decline in 2004 includes an organic decline of 2.2 million, or 18%.

Other European countries

Gross revenue in other European countries (Belgium, the Czech Republic, France, Germany, Poland, Spain, and the United Kingdom) increased 13% to 254 million, compared to 226 million in 2003. Nine percent of this increase was due to organic growth, but acquisitions, including the acquisition of Homola in Germany in 2003, Profil in Poland in 2004 and smaller acquisitions in Belgium and the United Kingdom, contributed 4%. Gross revenue in 2002 was 183 million. Gross revenue from other European countries represented approximately 28% of our total gross revenue for 2004.

Particularly in Belgium, France and the U.K., organic growth was at a high level. Due to changes in government budget allocations, growth flattened in Spain. In Belgium, France and Spain growth mainly resulted from infrastructure and buildings. In the U.K., it was fully achieved in the environmental market. In Poland, solid growth was also reached in environment, while Profil provides an excellent base for growth in the infrastructure market. In the Czech Republic, the buildings market recovered, and growth was continued in infrastructure. In Germany, the market remained difficult, resulting in an organic decline, particularly in infrastructure. In environment and project management for buildings growth was achieved.

Operating income excluding amortization of goodwill and identifiable intangible assets grew by 12% to 12.7 million in 2004, compared to 11.3 million in 2003 and 7.6 million in 2002. Except for Germany, all countries contributed to this improvement. Organic growth for operating income excluding amortization of goodwill and identifiable intangible assets totaled 0.4 million or 3%. Operating income excluding amortization of goodwill and identifiable intangible assets from other European countries represented 36% of our total operating income excluding amortization of goodwill and identifiable intangible assets for 2004.

The United States

Gross revenue for the United States increased 9% in 2004 to 267 million, compared to 264 million in 2003 and 255 million in 2002. Gross revenue from the United States represented approximately 30% of our total gross revenue for 2004. Organic growth was 9%, while acquisitions also contributed 9%. This included three acquisitions completed in 2003, the acquisition of *Bessent, Hammack & Ruckman, Inc.* (BHR) in October 2004 and the acquisition of *Diversity Partners* in November 2004. The decline of the U.S. dollar resulted in a considerable negative currency effect of 9%.

In the United States, activities in the environmental market developed very favorably. Infrastructure activities also saw growth. In the buildings service area, the influence of the shift in investment to low-wage countries was noticeable, resulting in a strong decline in the activities of this area.

Operating income excluding amortization of goodwill and identifiable intangible assets rose considerably and totaled 13.4 million, compared to 11.2 million in 2003, a 20% increase. Operating income excluding amortization of goodwill and identifiable intangible assets in 2002 was 12.5 million. This includes an organic increase of 1.3 million, or 12%. Operating income excluding amortization of goodwill and identifiable intangible assets from the United States represented 38% of our total operating income excluding amortization of goodwill and identifiable intangible assets for 2004.

Other regions

Activities in other regions (including Chile and Brazil), 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 7% to 78 million, compared to 73 million in 2003 and 83 million in 2002. The organic increase of 8% was primarily due to the market recovery in Brazil and Chile. This resulted in strong activity growth in both infrastructure and environment. In projects for developing countries, a decline occurred which was primarily due to unfavorable market conditions and the insecure international political climate caused by, among other things, the war in Iraq. However, we were awarded several projects by the Water Framework Directive of the European Union. For 2004, operating income excluding amortization of goodwill and identifiable intangible assets in other regions was 2.3 million compared to 1.4 million in 2003 and 6.0 million in 2002. In Brazil the contribution from energy projects (included in income from non-consolidated companies) was at the same level as in 2003. Gross revenue from other regions represented approximately 9% of our total gross revenue for 2004 and operating income excluding amortization of goodwill and identifiable intangible assets from other regions represented approximately 7% of our total operating income excluding amortization of goodwill and identifiable intangible assets 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, these risks can be limited.

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 works 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 Dutch GAAP. Beginning in 2005, the new accounting rules under the International Financial Reporting Standards, or IFRS go into effect. At the end of this Item 5, we have included a summary of the effects that the introduction of the IFRS will have 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. Assets and liabilities acquired in a business combination are recorded at their estimated fair values as of their acquisition date. At December 31, 2004, we had approximately 96.0 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. Under Dutch GAAP, up to and including 2004, goodwill is amortized. The assessment of goodwill involves the estimation of the fair value of the Company s geographical assets. Management completed this assessment during the fourth quarter of 2004 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 (U.S. GAAP). 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 16 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 a range of possible loss is known.

Contingent liabilities and provisioning for reorganizations, other litigation, and tax disputes are discussed in Note 11 Other Long-Term Liabilities and in Note 13 Commitments and Contingent 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, 2004, 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 three-year period ended December 31, 2004.

		Percentages		Percent Change	
	2004	2003	2002	04/03	03/02
Gross revenue	142.4%	141.2%	141.8%	7.2%	2.6%
Materials, services of third parties and subcontractors	42.4	41.2	41.8	9.4	1.6
Net revenue	100.0	100.0	100.0	6.2	3.1
Operational costs	92.0	91.3	89.8	7.1	4.7
Depreciation	2.5	2.7	2.8	(2.9)	1.1
Amortization of goodwill	0.4	0.2	0.0	121.1	506.0
Operating income	5.1	5.8	7.4	(6.3)	(18.4)
Financing income/expenses net	(0.5)	(0.4)	(0.4)	21.9	28.3
Income from operations before taxes	4.6	5.4	7.0	(8.8)	(21.0)
Taxes	1.5	2.0	2.4	(17.9)	(19.0)
Income of consolidated companies from operations after taxes	3.1	3.4	4.6	(3.6)	(22.1)
Income of non-consolidated companies and long-term investments after taxes	0.4	0.4	0.1	(5.2)	291.2
Group income from operations after taxes	3.5	3.8	4.7	(3.8)	(14.3)
Minority interest	0.3	0.2	0.4	(23.7)	25.8
Net income	3.2	3.6	4.3	(5.8)	(13.4)

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

On the whole, operational results during 2004 developed favorably. If exchange rate differences are excluded, gross revenues increased by 10%, while net income from operations (before goodwill amortization) improved by 4%. Especially the environmental service area produced excellent results. Considerable restructuring was necessary in the Netherlands because of difficult market conditions. Excluding the effects of this restructuring which affect the comparability of results and excluding currency effects, net income from operations increased by 10%, or 9% per share. The decline of the U.S. dollar had a negative effect of 3% on revenue and income.

Gross revenue

Gross revenue in 2004 increased by 7% to 901 million, compared to 841 million in 2003. Excluding currency effects, the increase in gross revenue was 10%. Of this increase, 1% came from proceeds of the sale of non-core activities in the Netherlands. The remaining 9% is in line with the goal to achieve an annual gross revenue growth of 10%. Acquisitions and divestments contributed a net of 4%, so organic growth totaled 5%, compared to 1% in 2003. The increase in organic growth was primarily the result of strong growth in the U.S. environmental market, the development of facility management in the Netherlands and market recovery in South America.

The geographic distribution of revenue remained basically unchanged from 2003. Even though activities in the United States were relatively solid, that growth was partially offset by the decline of the dollar. In 2004, 30% of revenues came from the United States, compared to 29% in 2003, while the Netherlands contributed 34%, compared to 35% in 2003; other European countries contributed 28%, compared to 27% in 2003; and other regions contributed 8%, compared to 9% in 2003.

Other factors affecting our gross revenue in each of our service areas are described below.

Infrastructure area growth mainly through acquisitions Growth in the infrastructure service area in 2004 was 3%, mainly from acquisitions, which contributed 5% to growth. Organically, activities declined by 1%. The strong decline in the Netherlands and Germany was fully offset by the continued growth in Belgium, France, Spain and the United States and the market recovery in Brazil and Chile. The currency effect was a negative 2%.

Environment area experiences strong growth After an organic growth of 10% in 2003, organic growth further increased to 15% in 2004. With that, the environmental segment has by far experienced the strongest organic growth. The currency effect was a negative 6%, resulting in a total growth of 9%. The United States was the largest contributor to growth, experiencing an organic growth of 20%. Most European countries, as well as Brazil and Chile, also experienced growth in environmental activities. In the United Kingdom, very strong growth was achieved. The margin was maintained at a good level of 9.3%.

Buildings area reflects transition Gross revenue in the buildings area rose by more than 30%. Of this growth, 21% was generated by acquisitions completed in 2003 and 2004. Specifically, the acquisitions of PRC in the Netherlands and earlier of Homola in Germany contributed to growth. With these acquisitions, project and program management activities were added, which have higher margins and better growth potential. Organically, gross revenue rose by 11%, mainly because of growth in facility management in the Netherlands. In other European countries, activities also grew. Offsetting this was a considerable organic decline in the U.S. market. Currency effects had a negative impact of 2%.

Net revenue

Our net revenue, the part of sales produced by our own employees, increased 6% to 633 million, compared to 595 million in 2003. Excluding the currency effect, growth was 9%. The sale of non-core activities in the Netherlands produced 1% of the growth while 5% came from acquisitions and divestments. The 3% organic growth was somewhat lower than gross revenue growth because a large part of the growth occurred in activities that have a large component of third-party services, such as facility management and GRiP® projects.

Operational costs

Operational costs increased by 7% to 582 million in 2004, compared to 543 million in 2003. Acquisitions produced a 5% increase in operational costs, while currency effects resulted in a 3% decline. The organic increase of operational costs totaled 5%. The organic increase in operational costs, therefore, exceeded the organic development of net revenue. This was primarily the result of reorganization costs in the Netherlands. Because the facility management activities of Dutch ARCADIS offices were contracted to ARCADIS Aqumen Facility Management, a transfer of costs from personnel costs to other operation costs occurred. ARCADIS Aqumen Facility Management is a 50/50 joint venture company (proportionally consolidated) between ARCADIS and Aqumen of the United Kingdom, which delivers facility management services and consulting.

Depreciation expenses

Depreciation decreased by 3%, depreciation (excluding amortization of goodwill) and totaled 2.5% of net revenue. The decrease was the result of the sale of the contracting activities in the Netherlands.

Operating income

Operating income as reported in our consolidated statements of income includes amortization of goodwill of 2.6 in 2004 compared to 1.2 million in 2003. The increase is the result of completed acquisitions. Unlike U.S. GAAP, which discontinued the amortization of goodwill beginning in 2002, Dutch GAAP still requires goodwill to be amortized. For purposes of our internal management reporting, we focus on operating income excluding amortization of goodwill and other identifiable intangible assets. We believe this is also the way most analysts and investors would compare our results from year to year. The following table reconciles operating income in our financial statements to the measure we use in this discussion and analysis (in thousands):

	2004	2003	2002
Operating income as reported	32,656	34,862	42,730
Goodwill amortization	2,558	1,157	191
Operating income excluding amortization of goodwill and identifiable intangible assets	35,214	36,019	42,921

Operating income excluding amortization of goodwill and identifiable intangible assets declined to 35.2 million, compared to 36.0 million in 2003. Excluding the effects resulting from the restructuring in the Netherlands which affect the comparability of results, operating income excluding amortization of goodwill and identifiable intangible assets rose 10% to 39.6 million. Acquisitions contributed 11% to this increase; currency effects were negative at 3%. Excluding the effects of this restructuring which affect the comparability of results, organic growth was 2%. After a strong decline in 2003, 2004 saw a modest organic income growth. This was the result of the solid performance in the U.S. market and market recovery in Brazil. The decline in demand produced margin pressure in the Netherlands and an income decline, also in [recurring] activities.

Margins

Market conditions resulted in an increase in margin (operating income excluding amortization of goodwill and identifiable intangible assets as a percentage of net revenue) from 6.0% in 2003 to 6.3% in 2004. Margins for infrastructure, the environment and buildings activities were 6.7%, 9.3% and 1.4%, respectively, compared to 7.1%, 9.3% and (1.1)%, respectively, in 2003.

Financing expenses

Financing charges increased 22% primarily as a result of the financing of acquisitions completed in 2003 and 2004. Financing charges totaled 3.5 million in 2004, compared to 2.8 million in 2003.

Tax rate

The 32.9% tax rate was considerably lower than the rate of 36.5% in 2003. The reduction was the result of a largely tax-free book gain from the sale of activities. In addition, the U.S. tax rate was lower because of tax cuts introduced by the administration to stimulate the economy. 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, and, therefore, no credits have been included in the results since 2002 as a precautionary measure until this issue is resolved.

Contribution of non-consolidated companies; minority interest

The contribution from non-consolidated companies declined from 2.6 million in 2003 to 2.4 million in 2004. Minority interest is that part of net income that flows back to the other owners of non-fully owned ARCADIS companies. Minority interest rose 24% in 2004, reflecting a strong profit increase in Brazil, where we have a 50.01% ownership interest.

Net income

Net income (after goodwill) totaled 20.1 million, or $1.00 per share, in 2004, compared to 21.4 million, or 1.07 per share, in 2003. Net income from operations (before goodwill amortization) was 22.7 million, or 1.13 per share, compared to 22.5 million, or 1.13 per share, in 2003. Excluding items that affect the comparability of results and currency effects, net income from operations increased 10%, or 9% per share.

Since 2001, goodwill paid on acquisitions is capitalized and amortized over the economic lifetime of the asset. The effect of this on 2003 results was 1.2 million, compared to 0.2 million in 2002.

Number of outstanding shares

The number of issued shares rose slightly in 2004 to 20.6 million shares, of which 20.3 million are outstanding. The increase by 215,000 shares was purely the result of the exercising of options under the existing U.S. option plans. These plans result in a limited amount of dilution. In 2004, to prevent dilution we began to repurchase our own shares for future issuance pursuant to our option plans. Under Dutch GAAP and U.S. GAAP these repurchased shares are not considered to be outstanding. 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 11, 2005 at the Annual General Meeting of Shareholders, our shareholders approved a dividend of 0.48 per share over 2004. The dividend will be paid out in cash. The dividend for 2003 was at the same rate of 0.48 per share. Calculated at the 2004 closing price of our common shares on Euronext of 13.70, the dividend yield is 3.5% in 2004, compared to 5.1% in 2003. This decrease was fully the result of the increased price of the ARCADIS share.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Gross revenue

Gross revenue in 2003 increased by 3% to 841 million, compared to 819 million in 2002. Acquisitions contributed 9% to growth, and organic growth was 1%. Exchange rate differences, especially the lower rate of the U.S. dollar against the Euro, exerted a negative effect of 7%. Organic growth in 2003 was primarily a result of our activities in the United States, Belgium and the United Kingdom. The solid performance in the U.S. environmental market particularly contributed to growth. However, this growth was offset by organic declines in the Netherlands and Brazil as a result of poor market conditions and uncertainty in the donor-financed markets as a result of unstable international political conditions.

Acquisitions and exchange rate differences produced a considerable shift in the geographical distribution of gross revenues. In 2003, revenues from the United States declined to 29% from 31% in 2002, 35% of revenues were generated in the Netherlands compared to 36% in 2002. The largest increase was in other European countries, which represented 27% of revenue compared to 22% in 2002, while revenue from other regions declined slightly from 10% in 2002 to 9% in 2003. Please see Developments by Geographic Segment in this Item 5 for a description of the trends affecting gross revenue by geographic segment.

Net revenue

Our net revenue, the part of sales produced by our own employees, increased 3% to 595 million in 2003 from 578 million in 2002. Exchange rate differences produced a 6% decline, while acquisitions contributed a 10% growth. The decline of 1%, in organic growth in net revenue was slightly lower than in gross revenue because net revenue does not include the revenue received for services performed by third parties with whom we have subcontracted portions of the work to be performed under our contracts. In the U.S. environmental market for GRiP® projects, in which we experienced organic growth in gross revenue, a large component of the services were performed by third-parties.

Operational costs

Operational costs increased by 5% to 543 million in 2003, compared to 519 million in 2002. Acquisitions produced a 10% increase in operational costs, while currency effects resulted in a 6% decline. The organic cost increase totaled 1%. The organic increase in operational costs, therefore, exceeded the organic development of net revenue. This was primarily the result of developments in the Netherlands and Brazil. In light of the difficult market conditions, a cost-reduction program was implemented in the Netherlands. Despite an increase of 6.0 million in pension charges, the cost-reduction measures led to an organic decrease in operational costs. This decrease, however, was insufficient to compensate for the decline in net revenue.

Depreciation expenses

With an increase of 1%, depreciation (excluding amortization of goodwill) was almost unchanged. The increase is slightly lower than that of net revenue because the acquisitions are primarily consulting companies that have lower depreciation.

Operating income

Operating income as reported in our consolidated statements of income includes amortization of goodwill of 1.2 million, 0.2 million and 0.1 million for the years 2003, 2002 and 2001 respectively. The increase in amortization is due to the increases in goodwill resulting from the acquisitions we made during 2002 and 2003. Operating income declined to 36.0 million in 2003, compared to 42.9 million in 2002. This 16% decline is largely attributable to conditions in the Netherlands and Brazil. In the Netherlands, the strong increase in pension charges could not be passed on in the pricing, and margins were under pressure as a result of poor market conditions. In Brazil, the change in government caused delays in project awards, resulting in a lack of work for some staff. Acquisitions (after acquisition cost) yielded a positive effect of 10% on operating income. The 2002 operating income included an incidental book gain on the sale of an activity in the United States, resulting in a negative effect on operating income development in 2003 of 4%. The currency effect produced a decline of 7% in operating income.

Margins

Market conditions resulted in a decline in margin (operating income as a percentage of net revenue) from 7.4% in 2002 to 6.0% in 2003. As 2003 was the first year in which we report margins by activity, it is not possible to measure the consistency of these figures. Margins for infrastructure and environmental activities were 7.4% and 9.3%, respectively. Margins for buildings and communications activities were (1.1)% and (0.6)%, respectively, reflective of market conditions in these two service areas.

Financing expenses

Financing charges increased 28% primarily as a result of the financing of acquisitions completed in 2002 and 2003. Financing charges totaled 2.8 million in 2003, compared to 2.2 million in 2002.

Tax rate

At 35.2%, the effective tax rate was almost unchanged from the 35.4% of 2002. In the United States, we may qualify for a tax credit for expenditures on research and development. From 1999 through 2001, a total of $5.4 million was included in operating income related to this tax issue. We are awaiting a final settlement with the U.S. tax authorities regarding activities that qualify for this tax credit, and, therefore, no credits have been included in the results since 2002 as a precautionary measure until this issue is resolved.

Contribution of non-consolidated companies; minority interest

The contribution from non-consolidated companies rose from 0.7 million in 2002 to 2.6 million in 2003. This increase is largely attributable to the contribution of 1.8 million from energy projects in Brazil that we developed in cooperation with other parties. In these projects, we hold a minority interest through our Brazilian subsidiary ARCADIS Logos. It is expected that these energy projects will continue to positively contribute to results in the coming years. In addition, income from non-consolidated companies includes a dividend of 0.5 million, related to the liquidation of the Holland Environmental Venture Fund.

Minority interest is that part of net income that flows back to the other owners of non-fully owned ARCADIS companies. Minority interest declined by 26% in 2003, mainly as a result of the decline in the value of South American currencies.

Net income

As a result of worsened economic conditions, profitability declined in 2003. Net income was 21.4 million, or 1.05 per share, compared to 24.7 million, or 1.21 per share in 2002. Exchange rate differences produced a 5% decline. The decline can be almost entirely attributed to the difficult market conditions and higher pension charges in the Netherlands.

Since 2001, goodwill paid on acquisitions is capitalized and amortized over the economic lifetime of the asset. The effect of this on 2003 results was 1.2 million, compared to 0.2 million in 2002.

Number of outstanding shares

The number of outstanding shares rose slightly in 2003 to 20.4 million. The increase by 134,000 was purely the result of the exercising of options under the existing U.S. option plans. These option plans still cause a limited amount of dilution.

Dividends

Management proposed, and on May 12, 2004 at the Annual General Meeting of Shareholders our shareholders approved, a dividend of 0.48 per share over 2003. The dividend was paid out in cash. The dividend for 2002 was at the same rate of 0.48 per share. Calculated at the 2003 closing price of our common shares on Euronext of 9.34, the dividend yield is 5.1% in 2003, compared to 6.0% in 2002.

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

Working capital, consisting of work in progress amounting to 27.7 million (see Note 6) plus trade receivables amounting to 184.8 million (see Note 5) minus accounts payable amounting to 75.8 million (see Consolidated Balance Sheet) declined as a percentage of gross revenue (amounting to 900.8 million) from 16.3% in 2003 to 14.7% in 2004. However, in the opinion of management, the company has sufficient resources to meet its present requirements.

Net cash provided by operating activities was 44.8 million for the year ended December 31, 2004 compared to net cash provided by operating activities of 59.1 million for the year ended December 31, 2003 and 45.8 million for the year ended December 31, 2002. The net cash flow activity related to operating activities consisted primarily of adjustments to net income for non-cash transactions, including depreciation and amortization, decreases in receivables and other current assets as well as a decrease in inventories.

Net cash used in investing activities was 19.7 million for the year ended December 31, 2004 compared to net cash used in investing activities of 60.4 million for the year ended December 31, 2003 and 28.0 million for the year ended December 31, 2002. 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. In 2004, the divestment of some non-core activities in the Netherlands generated a net cash flow of 8.0 million.

Net cash used in financing activities was 6.7 million for the year ended December 31, 2004 compared to net cash used in financing activities of 17.9 million for the year ended December 31, 2003 and 3.8 million for the year ended December 31, 2002. The net cash flow activity related to financing activities consisted primarily of net changes in short-term borrowings and bank overdrafts, dividends paid and repayment of long-term debt.

Cash at year-end 2004 was 48.2 million, compared to 31.3 million in 2003 and 53.2 million at year-end 2002. This increase compared to year-end 2003 is, in large part, related to a relatively small amount used for investments in acquisitions, and the amount received for the divestment of non-core activities. Net cash (cash minus interest-bearing debt) at year-end 2004 was 5.8 million against net debt (interest-bearing debt minus cash) at year-end 2003 of 7.4 million, indicating that investments in acquisitions of 15 million could be financed from operational cash flow. In addition, there was a 2.4 million cash improvement from the exercise of stock options.

At year-end 2004, a total of 172 million in short-term credit facilities was available, compared to 154 million at year-end 2003. As of December 31, 2004, 9.8 million of these facilities were used. In addition, banks have pledged performance bonds and other guarantees related to projects for a total of 38.0 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 2004, our long-term debt totaled 12.0 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.

Other Balance Sheet Items

Our total assets grew from 347 million at year-end 2003 to 390 million at year-end 2004, mainly because of expansion through acquisitions. As a result of acquisitions completed in 2004, goodwill rose to 48.1 million. compared to 38.2 million in 2003. The identifiable assets of acquisitions are capitalized separately, and at year-end 2004, this totaled 2.4 million. This generally relates to the value of the yet to be realized profit in the backlog of the acquired companies. As of 2005, the goodwill is no longer amortized but subject to an impairment test once a year.

Shareholders equity increased by 9.1 million to 145.7 million at year-end 2004. Because of the exercise of options, 2.4 million was added (1.7 million from the issuance of new shares and 0.7 million from the placement of repurchased shares). The addition of net income over the book-year 2004 resulted in an increase of 20.1 million. Shareholders equity declined by 9.6 million as a result of dividend payments over the book-year 2003. In addition, shareholders equity declined because of exchange rate differences of 3.6 million and of 0.2 million for the repurchase of approximately 12,000 shares in the company to cover obligations in option plans.

Concerning our balance sheet ratios, solvency calculated as shareholders equity, amounting to 145.7 million and minority interest amounting to 9.0 million as a percentage of total assets amounting to 390.5 at year-end 2004 was 39.6%, compared to 41.5% at year-end 2003. The debt to equity ratio at year-end 2003 was 0.1 as compared to 0.2 in 2003. Return on average capital invested (shareholders equity plus net interest bearing debt) was 16.5%, compared to 15.7% in 2003.

Capital Expenditures

Investments in tangible and intangible fixed assets, excluding acquisitions, declined by 5.7 million to 12.5 million in 2004, compared to 18.2 million in 2003 and 14.2 million in 2002. The increase in 2003 compared to 2002 included the effect from a office move in Amersfoort, the Netherlands of 4.8 million. The amount for 2004 primarily related to investments in communications and computer equipment. In 2004, 14.8 million, as compared to 41.8 million in 2003, was invested in the acquisition of consolidated companies, and 2.5 million, as compared to 4.3 million in 2003, was invested in non-consolidated companies and other financial fixed assets.

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

We have spent between 0.5% and 1.0% 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 solid results for the first quarter of 2005. Net income rose 21% compared to the same period last year. Gross revenues rose 8%. The decline of the U.S. dollar exerted a negative currency effect of 1 to 2% on both gross revenues and net income. The solid results were primarily the result of organic growth and the effect of earlier measures to improve margins.

We are pleased that our organic growth exceeded our 5% target. This growth resulted from the continued positive developments in the environmental market, steady growth in the buildings market and recovery in the Dutch infrastructure market. In that market we saw the first signs of recovery, which led to an improvement in our backlog. We believe that our policy to improve margins is yielding results. As a result of the restructuring that was completed in the Netherlands last year, as well as the ongoing transition in the buildings area to management and consultancy services with higher added value, the margin has clearly improved.

Key financial measures

	First quarter		
(Amounts in millions of Euros unless otherwise stated)	**2005**	**2004**	**% Change**

Gross revenue	223.0	207.0	8%
Operating income	10.1	8.1	25%
Net income	5.5	4.6	21%
Net income per share (1)	0.27	0.23	19%
Net income from operations (2)	5.9	4.5	30%
Net income from operations per share (1)(2)	0.29	0.22	29%