This Supervisory Board report provides the manner in which the duties and responsibilities of the Board were fulfilled in 2019; it describes the functioning of the Supervisory and Executive Board, and its compliance to the Dutch Corporate Governance Code. Additionally, a detailed account is given of the respective Supervisory Board Committees, and the topics under discussion throughout the year.
Arcadis NV has a two-tier Board structure, consisting of the Executive Board and the Supervisory Board, both with responsibilities for the Company and its stakeholders, yet each with its own specific task description. The task of the Executive Board is to manage the Company, and to realize its objectives and strategic goals. The task of the Supervisory Board is to supervise and advise the Executive Board.

This Report by the Supervisory Board sets out the manner in which the Supervisory Board fulfilled its duties and responsibilities in 2019. For details on the organizational structure see the paragraphs in the section on Corporate Governance in this Annual Integrated Report. For the activities of the Executive Board and Executive Leadership Team in 2019 see, amongst others, the CEO message, and also the performance by Segment pages in this Annual Integrated Report.

Focus items 2019 and Our Role as Supervisory Board

The Supervisory Board notes that good progress was made in the Top Priorities mentioned in the message from the Chairman. The focus and discipline resulting from the MEPC program and ensuring that the right countries/clients project opportunities are being pursued has contributed to an improved financial performance across the board. We believe that further improvement will be created with this sustained focus and a further utilization of the GEC’s. We are furthermore pleased with the improved engagement of the employees of Arcadis and appreciate in particular their personal commitment and involvement in expanding our Digital capabilities, factors which have contributed to a reduced level of voluntary turnover and will help the Company in becoming an employer of choice. The further introduction of the Arcadis Way has progressed throughout the year with the implementation of the Oracle cloud solution in North America, which included some challenges resulting in delays in invoicing to clients.

In CallisonRTKL new leadership was put in place and the organization and structure were simplified. We expect to see results of the improvements in 2020. Australia continued to perform very well in 2019, and performance in North America was also very strong. The macro indicators for Brazil continued to improve in Q4 2019 but is not back yet. Nevertheless, Latin America continues to make improvements. Europe, Middle East and the United Kingdom also did well albeit in the Middle East cash collection remains an attention point. During the year Brexit got focused attention; the effect of Brexit so far remained limited.

With regard to the ALEN associate, the intent was to sell the clean energy assets as they are non-core business. However, despite interest in the market, it became clear at the end of the year that a successful divestment would not occur in the foreseeable future. As a result, the Company decided to stop any further investments and to take a provision to cover the full exposure.

Risk is inherent to doing business and to the realization of the Company’s strategy. Risk identification, in combination with pro-active and rigorous risk management, however also offers opportunities to further improve performance. With regards to risk management and particularly related to follow up on identified issues, the Supervisory Board is of the opinion that the organization needs to further strengthen its ability for timely close issues out. In 2020 the Supervisory Board will therefore put additional focus on risk related supervision.

Various efforts were undertaken in 2019 in the areas of Integrity and Sustainability. This includes the 2019 global Integrity & Anti-Corruption program and the implementation of the Global Privacy Program. The Company’s commitment to Sustainability was further strengthened in 2019 through the explicit inclusion of the ‘Sustainalytics score’ in the long-term incentive of Executive Leadership Team. The Supervisory Board is keen to see further steps on sustainability in 2020.
Reducing indirect costs and organizational simplification stayed on the agenda. Various steps were taken to progress the topic such as the appointment of a Global Procurement Officer and a Director of Global Workplace to ensure better leverage of our global spent as well as a more efficient management of our global real estate portfolio.

The Supervisory Board fully supports all efforts in the mentioned area and stresses the importance of progress. Digitalization will be crucial to long-term value creation as well as for the sustainability and longevity of the Company. In 2019, a sub-committee of the Supervisory Board continued to regularly interact with the Leadership of the Digital team, which we will continue in 2020. The Supervisory Board has also consistently supported and pushed the focus on clients, MEPC, the utilization of the shared service centers, the people and value related efforts, as well as profitability and positive cash generation.

We are pleased with the overall performance and particularly with the improvements in Asia and the Middle East, following the actions we took. As to the ALEN Clean Energy Assets, we have received very frequent updates and had many in-depth discussions with the Executive Board during the year. We believe that the ALEN associate has been given ample time to create a return on the investments in clean energy assets. We fully supported the December decision of the Executive Board to stop investing in ALEN and take a provision for the full exposure. Arcadis can now focus on its core business. Debt ratio levels stayed within strategic brackets. It is good to see the Executive Leadership team function as a team and jointly driving improvements. Continued attention for cost management will remain important in 2020 to achieve our strategic targets by the end of 2020. We believe there is further room to simplify the organization and will continue to keep this on our attention list. On Health & Safety we continued to always start our meetings with an update on Health & Safety situations (such as the Australian bush fires and the corona virus).

Finally, we note that several of the priorities were (also) extensively addressed in the respective Committees of the Supervisory Board. Supervisory Board members that are not a member of a relevant Committee frequently sit in on those other Committee meetings. The respective chairpersons of the Committees always report on their discussions during the full Board meetings.

Supervisory Board meetings. Attendance

In 2019, we had five regular scheduled meetings. All our meetings were attended by the members of the Executive Board and various members of the Executive Leadership Team. We also had five ‘Supervisory Board-only’ meetings, as per our regular schedule.

In our scheduled meetings we addressed the focus items listed earlier in this Report, as well as topics that we address every year, including the financials, performance, governance (including composition of the Supervisory Board and Executive Board and related (re-)nominations, the remuneration of the Supervisory Board, Executive Board and Executive Leadership Team, and more in general the preparation of the annual shareholders meeting), Risk Management, Internal Audit, Legal, Claims and Claim related trends, Integrity, Compliance and the Integrity & Anti-Corruption program, People, IT, developments in the organization, important project wins and M&A/divestment/portfolio (opportunities). During the year we monitor progress against the priorities mentioned earlier in this Report.

Supervisory Board members were rarely absent from either Supervisory Board meetings or Supervisory Board Committee meetings. The attendance percentage for the full Supervisory Board meetings was 97.1% (2018: 98.6%), for Supervisory Board-only meetings 97.1% (2018: 100%), for Audit and Risk Committee meetings 93.7% (2018: 93.8%), for Remuneration Committee meetings 91.6% (2018: 100%) and for Selection Committee meetings 100% (2018: 100%). As for absence from meetings: two Supervisory Board members had to each miss one day of meetings due to personal (family related) circumstances. They provided input for the meetings prior to the meetings.

Next to interaction with the Executive Board, the Executive Leadership Team as well as other regional leadership in the Supervisory Board meetings in the form of presentations in areas of responsibility and discussion, interaction also takes place during social events in offices, dinners and one-on-one discussions with various senior leaders. Throughout the year, the Chairman maintained frequent contact with the CEO, CFO as well as with the General Counsel & Company Secretary. Similarly the Chairpersons of the Supervisory Board Committees were in frequent contact with, as applicable, the CEO, CFO, (interim) Chief People Officer, Chief Risk Officer, Head of Internal Audit and General Counsel & Company Secretary or her deputy.

Finally, we like to mention that all Supervisory Board members, as well as two Executive Board members and one Executive Leadership team member, are board members of the Priority Foundation. This foundation also has ten Arcadis employees in its Board from across the organization. As a group, these ten employees are joined
up in another foundation’s board, called the Bellevue Foundation. The board of the Priority Foundation meets at least twice a year to discuss Arcadis affairs. Reference is made to note 25 of the Consolidated financial statements for further information on the Priority Foundation and the Bellevue Foundation.

Functioning of the Supervisory Board, the Executive Board and the Executive Leadership Team

Annually we perform our assessment of the functioning of the Supervisory Board, the Supervisory Board Committees and the individual Supervisory Board members. In December 2019, we performed the assessments with two structured questionnaires prepared in co-ordination with the Company. The assessment of the functioning of the Chairman of the Supervisory Board was led by the Vice-Chairman of the Supervisory Board without the presence of the Chairman. As a result of the evaluation we re-emphasized the need for further improvement in delivery of Supervisory Board materials and more focus on risk management.

Same as in the last years, in the Board meetings each of the Supervisory Board members takes responsibility that certain specific attention areas/topics are addressed. This helps ensure that we give the topics the required attention and optimize our respective specific expertise. Since 2016 we also structurally evaluate our Supervisory Board meetings amongst ourselves at the end of every scheduled Supervisory Board meeting.

In our meeting in February 2020 we concluded that the induction program of the Supervisory Board is set up well.

In February 2019 we set personal targets for the CEO. During the year we monitored the performance of the Executive Board and the individual Executive Board members in our Supervisory Board-only meeting(s). In December 2019 and February 2020 we did assessments of the Executive Board performance, the two Executive Board members and the performance of the Executive Leadership Team. Following the discussions during the year, and following the assessments, we have or will be providing feedback. Based on the assessment, the Supervisory Board has concluded that the relationship between the Executive Leadership Team and Supervisory Board is good and constructive, whilst sufficiently critical. This is considered essential to functioning properly.

Composition Executive, Supervisory Board and Executive Leadership Team

As at 31 December 2019, the Supervisory Board consisted of seven members, the Executive Board of two members and the Executive Leadership Team of nine members, including the two Executive Board members. In October 2019, Mrs. van Blokland was appointed to the Executive Leadership Team in the role of Chief People Officer. She replaced Mrs. Belilos, who left the organization earlier in 2019.

For information about diversity targets in our Supervisory Board we refer to the chapter on Corporate Governance in this Annual Integrated Report. For the current composition of the Executive Board, the Executive Leadership Team and information about its members, please refer to pages 136 and 137 of this Annual Integrated Report. For the current composition of the Supervisory Board, its Committees, and information about its members, please refer to pages 138 and 139 of this Annual Integrated Report.

Corporate Governance

In the chapter on Corporate Governance in this Annual Integrated Report, the governance structure of the Company is described, and we explain the one deviation from the principles and best practice provisions of the Corporate Governance Code. The Supervisory Board meets the requirements of the Code regarding the independence of its Chairman, of the other Supervisory Board members, and of the Supervisory Board as a whole. The Supervisory Board also complies with the best practice provision that its members do not hold more than five supervisory board positions at certain ‘large’ (listed) companies or entities. The Executive Board members do not hold more than two supervisory board positions with such companies. During 2019, no material transactions involving conflict of interest occurred for Executive or Supervisory Board members.
Supervisory Board Committee reports

Audit and Risk Committee report
M. Schönfeld (Chairman), N. Hoek, M. Lap, M. Putnam

In 2019, the Audit and Risk Committee (AARC) had four regular scheduled meetings. All regular scheduled meetings of the Committee were attended by the CEO, the CFO, the Group Controller as well as the internal and external auditors. There were also two ‘AARC-only’ meetings, as per the regular schedule.

The Chairman of the Committee had regular contact with the CEO and the CFO, but also with the external auditor and the Head of Internal Audit, to discuss focus items like financial performance, business risks and other matters. It is customary that the Committee shares its main deliberations and findings in the Supervisory Board meeting following the AARC meeting.

Focus and Performance

Financial performance of the Company remained the common thread of the Committee’s discussions and activities throughout 2019. Progress on each of the ten group-wide priorities was discussed, with special attention for, inter alia, the Make Every Project Count initiative. Likewise, the use of our Global Excellence Centers, the growth of order pipeline and backlog and the reduction of working capital as well as cost and cash management were recurring agenda items. Cash collection continued to be high on the agenda, especially the delays in invoicing in North America as a result of the implementation of Oracle in the second half of 2019 (limited progress).

As in 2018, the single-greatest specific attention item of the AARC in 2019 was the development of the clean energy assets in Brazil (ALEN) (including related risk and financial reporting) as well as the divestment process of these assets that started in Q2 2019. Progress was discussed during each meeting. In addition, bi-weekly written updates continued to be provided to the full Supervisory Board.

In each meeting, in the presence of the Head of Internal Audit the past quarter’s main internal audit findings were discussed and progress made against the annual internal audit plan was discussed. The Head of Internal Audit also presented the Committee with the positive outcome of a self-assessment on compliance with the requirements that the Dutch Corporate Governance Code imposes on the Internal Audit function.

In its October session the Committee evaluated the performance, independence and financial literacy of the Committee and its members, with a positive conclusion. Identified areas of improvement for AARC meetings include attributing clear accountability within the organization for solving issues brought up in AARC meetings, with corresponding timeline, priority, and reporting back to the AARC on actions taken.

Also, in each meeting, in the presence of the Chief Risk Officer, the meeting dedicated time to discuss various Risk Management topics. The meeting further regularly discussed, and reported to the Supervisory Board on, the Arcadis Risk Assurance Program. The main findings of this annual assessment cycle are discussed in the AARC andSB meetings in February of each year. The meeting agreed with the assessment’s main findings and observed weaknesses (including ALEN, the implementation of Oracle and the need to step up our information security efforts and further strengthen our defenses in this field). As an overall conclusion for the year, the meeting confirmed in its February 2020 meeting the importance of not only having adequate risk and control systems in place, but also of embedding Risk Management into the way Arcadis works. In this regard, the meeting witnessed improvement in 2019. The ELT and senior Regional management have taken increased ownership of the key risks, their management and, where necessary, mitigation. More work remains to be done on certain identified risks and to further improve our culture into both a culture of discipline and accountability as well as a culture where people feel free to bring up and discuss issues.

In the context of the annual results 2018, the meeting discussed and reconﬁrmed the Company’s dividend policy and recommended the dividend proposal of €0.47 per ordinary share to the Supervisory Board.

As is customary, during the April meeting the AARC also evaluated the performance of PricewaterhouseCoopers (PwC), the Company’s external auditor, and discussed certain improvement areas (for both PwC and the Company). PwC also presented its audit plan for 2019 during this meeting, which was discussed and approved. During the July Committee meeting, PwC’s half-year review report was discussed. PwC’s key financial reporting risks for 2019 and its audit findings, both at mid-year and at year-end, were aligned to the focus items identiﬁed by the Committee and by the Internal Audit department. Throughout the year, the Committee discussed and assessed with PwC the progress made regarding its key audit findings.

Like every year, the Committee frequently reviewed and discussed the Company’s quarterly reports on key legal claims and pending litigation, as well as claims statistics. The Committee also discussed assumptions used for impairment testing and the Company’s capital allocation policy.
Report by the Supervisory Board

The Committee was kept closely informed on the implementation of the Company’s Privacy program. The Committee was also regularly updated on (potential) integrity issues and related statistics, as well as on the status of the Integrity and Compliance program 2019.

Also on the agenda were presentations by the CFO EME, by the new Group Treasurer, and by PwC on non-financial information and sustainability. On the latter, the meeting discussed how the company can make sustainability a differentiator against peers and identified a number of improvement areas, including being more proactive and vocal about our ambition level and defining more concrete targets.

Finally, as is customary with acquisitions by the company, a post-acquisition review of the Hyder acquisition took place in 2019, five years after Hyder was acquired. With the people most closely involved in the acquisition process, the meeting discussed the strategic and financial value of the acquisition and the results. The meeting concluded that most strategic objectives of the acquisition were met, including strengthening the positions in UK Infrastructure and Australia and scaling up the capacity, capability and growth rate of the Global Excellence Centers. The meeting also discussed the valuable lessons learned from this transaction, including lessons regarding the post-merger integration process (e.g. handover of due diligence findings to Post Merger Integration team should be clear and explicit; focus should be on in-region collaboration instead of cross-region collaboration) and the purchase price adjustment process (importance of close collaboration between legal and finance departments; importance of clearly defining scope of exercise; and importance of making appropriate resources available).

Remuneration Committee report
R. Markland (Chair), N. Hoek, D. Goodwin, W.G. Ang

In 2019, the Arcadis Remuneration Committee (RemCo) met three times. The Chief Executive Officer, the Chief People Officer and the Chief Financial Officer (CFO) were invited to attend (parts of) these meetings. In the first quarter of 2019, the replacement of the Chief People Officer was discussed and in the selection process both external and internal candidates were considered. During both ASC meetings the committee discussed the succession Plan of the Executive Board and the Executive Leadership Team.

Furthermore, the replacement of Mr. J.C.M. Schönfeld as a member of the Supervisory Board was discussed. The third and final term of Mr. Schönfeld will expire after the AGM in 2020. After twelve years and in line with the Corporate Governance Code, he will not be eligible for re-appointment. The search for candidates to replace Mr. Schönfeld has been initiated, taking into account the profile and diversity policy for the Supervisory Board. The ASC Committee discussed and agreed on the appointment of Mrs. D. Goodwin for re-appointment as member of the Supervisory Board which re-appointment will be on the agenda of the AGM in 2020.

2019 financial statements, and dividend
The Executive Board has prepared this Annual Integrated Report, including the 2019 financial statements. PricewaterhouseCoopers, the external auditor, has issued its auditor report which can be found starting on page 262 of this Annual Integrated Report.
The members of the Executive Board have issued the statements required under section 5:25c.2.c of the Financial Markets Supervision Act (Wet op het financieel toezicht). All members of the Supervisory Board and Executive Board signed the 2018 Financial Statements in accordance with section 2:101.2 of the Dutch Civil Code (Burgerlijk Wetboek).

We recommend that the General Meeting (i) adopts the 2019 Financial Statements, (ii) approve the proposal to distribute a dividend of €0.56 per ordinary share, to be provided in cash or in shares at the option of the shareholder(s), and (iii) discharge the members of the Executive Board for their management of the Company and its affairs during 2019, and the members of the Supervisory Board for their supervision over said management.

Concluding remarks
2019 was a challenging but satisfying year. We are pleased to see that the focus on the core topics of the strategy for 2018-2020 as presented on 21 November 2017 is paying off. We thank the Executive Board, Executive Leadership Team, managers and all of the Arcadis staff worldwide for their strong contributions to our performance throughout the year. We look forward to another good year in 2020.

Amsterdam, the Netherlands, 12 February 2020

On behalf of the Supervisory Board
Niek W. Hoek, Chairman