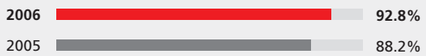
Real Estate

The Real Estate business area develops, manages, operates and invests in property at and around airports at home and abroad. The greater part of the portfolio, comprising both airport buildings and commercial properties is located on and around Amsterdam Airport Schiphol.

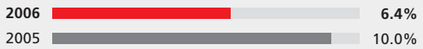
Sources of revenue: rents, including ground rents. The business area also makes a significant contribution to Schiphol Group results with the other property results (sales, release of land for development and the fair value gains or losses on property).

Real Estate Business Area	2006	2005	
EUR million			
Revenue	109	104	4.6%
Result on the sale of investment property	10	10	
Fair value gains on investment property	28	11	148.8%
Operating expenses	47	47	
EBITDA	120	102	17.8%
Operating result	101	78	28.6%
Average non-current assets	1,186	1,157	2.5%
RONA before tax	8.5%	6.8%	
RONA after tax	6.0%	4.6%	
RONA after tax, excluding fair value gains but including share in results of associates/interest income	4.6%	3.7%	
RONA after tax, including fair value gains and including share in results of associates/interest income	6.2%	4.3%	
Investments in intangible assets and property, plant & equipment	69	50	37.9%

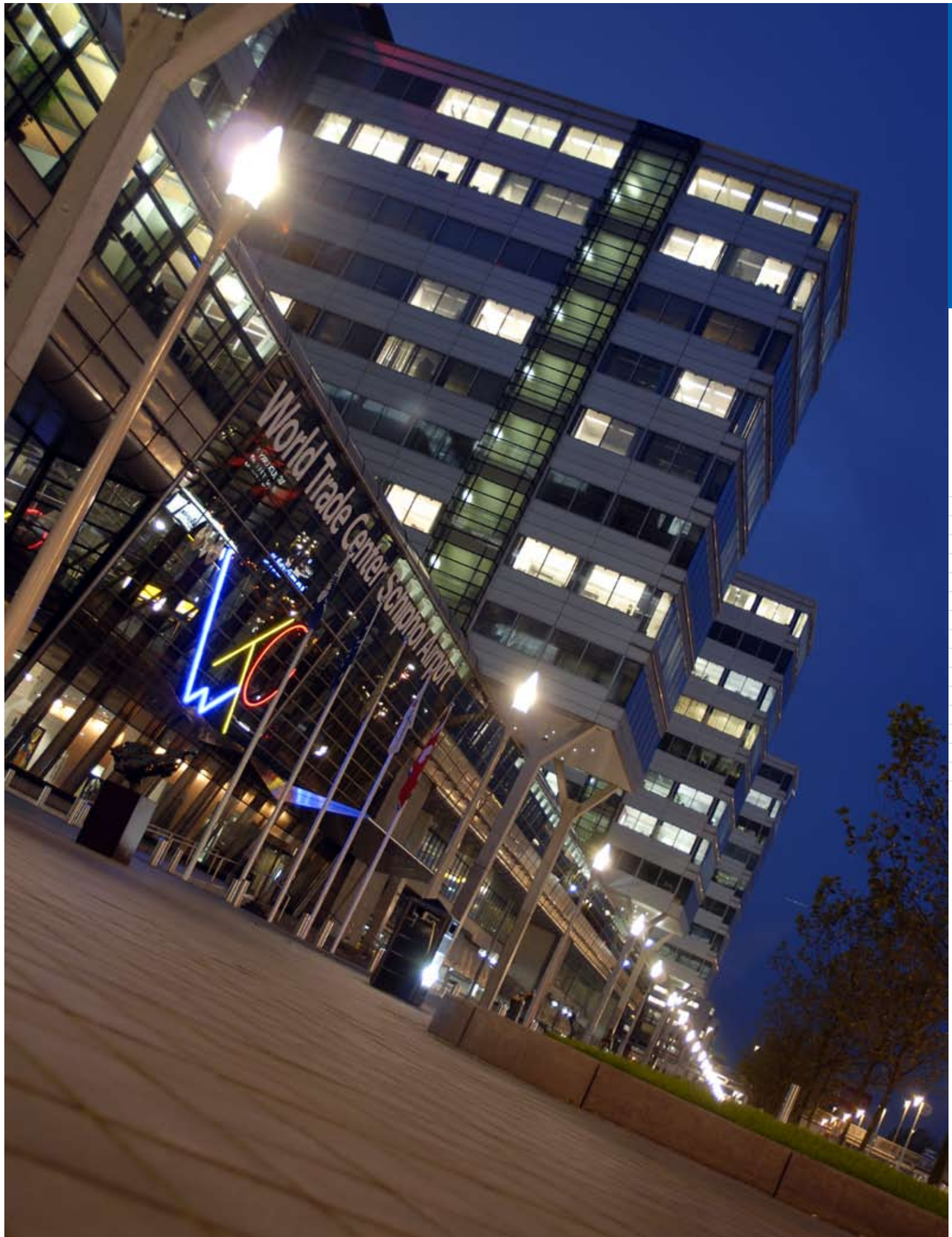
Occupancy in m²
Excluding buildings 70/72



Leases expiring per 31/12 in the coming 12 months
Based on rent value



Tenant satisfaction



- **Improvement in revenue despite sales of properties**
- **Strong increase in operating result**
- **RONA (after tax, including fair value gains and share in results of associates/interest income) increased to 6.2%**
- **Property portfolio occupancy increased to 93%**

Financial performance

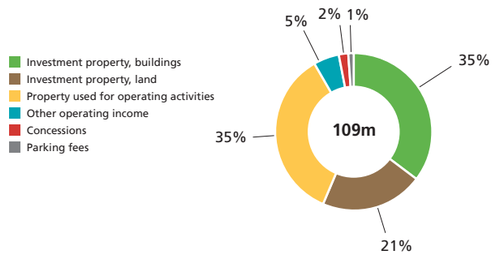
Real Estate posted a 4.6% increase in revenue in 2006, from EUR 104 million to EUR 109 million.

Revenue			
EUR million	**2006**	2005	%
Rents			
Investment property buildings	**38.2**	38.1	0.3%
Investment property land	**23.4**	23.1	1.5%
Property used for operating activities*	**38.6**	35.4	9.1%
Subtotal	**100.2**	96.6	3.7%
Other income			
Other operating income	**5.8**	4.9	17.5%
Concessions	**2.0**	1.8	12.9%
Parking fees	**1.1**	1.0	7.7%
Subtotal	**8.9**	7.7	15.1%
Total	**109.1**	**104.3**	**4.6%**

* *Figures for 2005 have been restated for comparison purposes.*

The main source of revenue is rents from letting property and ground rents from land. The rental income increased by EUR 3.6 million, to EUR 100.2 million. The increase was largely accounted for by higher rental income from property used for operating activities (EUR 3.2 million), including an additional EUR 2 million in rent from the terminal complex. The income from the investment property portfolio (offices and industrial buildings) showed a slight increase in 2006, of 0.3%, to EUR 38.2 million. The level of income from this source was maintained despite the loss of revenue resulting from the sale of properties to ACRE Fund at the end of 2005 (EUR 3 million) and further loss of rental income from properties sold to third parties (EUR 1 million). Improved occupancy levels for the investment property portfolio (EUR 1 million), an increase in service costs charged to tenants (EUR 1 million) and rents from new properties completed during the year (EUR 2 million) compensated the lost revenue.

Other operating income is largely generated by providing services to tenants. A relatively large amount of work was performed on behalf of third parties in the terminal during the year, increasing revenue from this source by EUR 0.9 million. Concession revenues relate to income based on the sales activities of tenants in our buildings. Parking fees are linked to the parking facilities forming an integral part of the buildings we let.



Of the total revenue, 97% is generated at Amsterdam Airport Schiphol, with the remaining 3% generated at other locations at or around airports in the Netherlands and abroad.

Sales of property yielded a profit of EUR 10 million (EUR 10 million in 2005). They concerned two

industrial buildings – Eagle Global Logistics (EGL) and a building on Prestwickweg. Profit was also recorded on the contribution of land to Schiphol Logistics Park CV, in which we now have an interest of almost 40%. In contrast to preceding years, no property was sold to ACRE Fund in 2006.

Other income, from property

EUR million	2006	2005	%
Result on sales of property	**10**	10	2.4%
Fair value gains and losses on property	**28**	11	148.8%
Total	**38**	**21**	**85.7%**

The fair value gains on the investment property in 2006 amounted to EUR 28 million (EUR 11 million in 2005). The appreciation of the portfolio resulted from the recognition of newly completed properties at fair value, the revaluation of parcels of land on which new long leases were granted and a net gain on existing properties.

Effective cost control in 2006 kept overall operating expenses at to the same level as the preceding year (EUR 47 million), despite the increased revenue.

The operating result for 2006 rose by EUR 23 million, from EUR 78 million to EUR 101 million, an increase of 28.6% (20.6% in 2005), with EUR 17 million of the improvement attributable to fair value gains on the portfolio and the result on sales of property. Excluding the latter effects, there was an 8% increase in the operating result for 2006, from EUR 68 million to EUR 73 million.

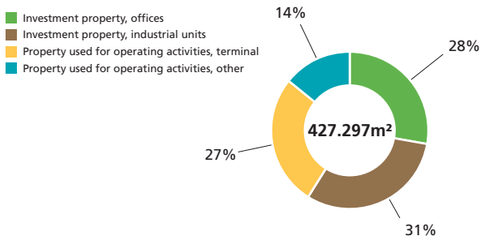
The RONA after tax, including fair value gains on the investment property and the share in results of associates, increased from 4.3% to 6.2%, based on average net assets. The improvement was the result of higher fair value gains plus increased revenues coupled with effective cost control.

Capital expenditure in 2006 amounted to EUR 69 million, an increase of EUR 19 million on the figure of EUR 50 million in 2005. The main investments in 2006 concerned the construction of a combined office and industrial building at Amsterdam Airport Schiphol (EUR 23 million), the construction of an industrial building in Italy (EUR 6 million) and the purchase of the leasehold on land in Rotterdam (EUR 6.5 million).

Size of property portfolio

The total size of our property portfolio in terms of area as at year-end 2006 was 427,297 m^2, which was almost unchanged compared with the year-end 2005 figure of 431,911 m^2 (both figures including buildings owned by associates in proportion to our interest).

Out of the total portfolio, 90% is located at Amsterdam Airport Schiphol, 6% on and around the regional airports of Rotterdam and Eindhoven and 4% in Italy.



Occupancy

Year-end	2006	2005	Difference in % points
Investment property, offices	**86.8%**	77.9%	+ 8.9
Investment property, industrial buildings	**96.7%**	95.6%	+ 1.1
Property for operating activities	**99.1%**	97.9%	+ 1.2
Property for operating activities, terminal	**93.2%**	89.0%	+ 4.2
Total for business area	**92.8%**	**88.2%**	**+ 4.6**
Including buildings 70/72	**86.9%**	85.6%	+ 1.4

The occupancy figure at Amsterdam Airport Schiphol as at year-end 2006 was the same as for 2005, at 87%. Excluding buildings 70 and 72, (two dated properties, currently tenanted, for which a new use is being sought), there was in fact an increase in the level of occupancy by 4.2 percentage points, from 88.2% to 92.4%. In the course of 2006, several new leases were signed for space in the WTC complex (totalling approximately 7,000 m^2 NLA).

Compared with 2005, an additional net lettable area of 2,300 m^2 was tenanted in Italy and an additional 655 m^2 at Eindhoven.

In 2007, leases underlying 6.4% of the annual rental income are due to expire (10.0% in 2006). In the year under review, 94% of the expiring leases were renewed.

Analysis of returns

The RONA before tax, including fair value gains on investment property and share in results of associates, amounted to 8.9% in 2006, based on avarage net assets. The returns generated by the constituent activities vary considerably, however, with the investment property (RONA before tax: 13.4%) and the property used for operating activities (RONA before tax: 9.1%) producing a positive return whereas the return on assets under construction and on other assets is negative.

Investment property

Our investment property (including the 50% interest in ACRE Fund and investments in other associates on a pro rata basis) comprises offices, industrial buildings and land on and around Amsterdam Airport Schiphol and the airports of Rotterdam, Eindhoven and Malpensa (Italy). We are independently responsible for the management of the properties in these portfolios. As at year-end 2006, the investment property accounted for 58% of our total property assets. The market value of these investments as at year-end 2006 amounted to EUR 707 million compared with EUR 635 million at the end of 2005. The average market value in 2006 amounted to EUR 696 million. The RONA before tax amounted to 13.4% compared with 11.0% in 2005. The improvement in the RONA was brought about by an improvement in the overall result (direct plus indirect results), which was stronger in relative terms than the increase in the average asset base.

Amsterdam Airport Schiphol: At Amsterdam Airport Schiphol, two buildings were added to the property portfolio in 2006 and were sold again during the course of the year. In Schiphol-Zuidoost, an industrial building, constructed on behalf of shipping agents EGL (10,225 m^2 NLA), was completed. Also in Schiphol-Zuidoost, an industrial building on Prestwickweg was purchased and sold on in 2006. In 2006, after standing unoccupied for some time, the Old Tower (the first control tower built at

EUR million	2006 RONA	2006 Average asset base	2006 Operating result ****	2005 RONA	2005 Average asset base	2005 Operating result ****
Investment property*	13.4%	695,854	93,184	11.0%	637,600	69,949
Assets under construction or development**	- 2.5%	110,502	- 2,760	- 2.0%	124,146	- 2,498
Assets used for operating activities**	9.1%	298,616	27,214	7.8%	308,690	24,047
Total property assets	**10.6%**	**1,104,973**	**117,638**	**8.5%**	**1,070,436**	**91,498**
Other assets (including overhead and allocations)**	- 20.6%	80,885	- 16,629	- 14.9%	87,070	- 12,956
RONA before tax	**8.5%**	**1,185,857**	**101,009**	**6.8%**	**1,157,506**	**78,542**
RONA after tax	6.0%			4.6%		
Share in results of associates***			4,198			- 3,619
RONA before tax, including associates	**8.9%**	**1,185,857**	**105,207**	**6.5%**	**1,157,506**	**74,923**
RONA after tax, including associates	6.2%			4.3%		

* *Recognised at market value*
** *Recognised at the lower of cost and market value*
*** *Value of Share in associates is included in other assets.*
**** *Includes fair value gains on the investment property.*

Amsterdam Airport Schiphol after World War II) was acquired. In November 2006, it became a Chinese-Indonesian restaurant.

Regional: In the Flight Forum Business Park in Eindhoven, land extending to approximately 6 ha was sold and a contract was signed for the sale of a further 4 ha to be completed in 2007.

In the business park at Rotterdam Airport, a land lease (sublet) was concluded with Mirates for the purpose of developing an office building of approximately 2,000 m^2 and a letter of intent was signed with Dura Vermeer for the construction of an office building of 12,000 m^2.

International: The occupancy level of our investment property near Milan's Malpensa Airport increased from 60% as at year-end 2005 to 86% at the end of 2006. In 2006, work also started on the construction of an industrial building (approximately 12,500 m^2) and two office buildings (approximately 11,700 m^2). The industrial building is already fully leased. No leases have yet been signed for the office buildings. With the acquisition of the share of Grontmij Real Estate Investments BV, our interest in Malpensa Real Estate BV and Malpensa Real Estate II BV has increased from 60% to 100%.

Assets under construction or development
The assets under construction or development are intended either as future investment property or as property used for operating activities. The asset category comprises development sites, landbank investments for the Aviation business area and buildings under construction. These assets tie up capital for the duration of the development period. In 2006, the return on these sites was negative, owing to associated operating expenses, such as costs associated with planning procedures, surveys and taxes (which cannot be capitalised). From the moment of completion of the buildings concerned, however, such assets make a positive contribution to the RONA (in the form of fair value gains), which will be reflected in the return on the investment property portfolio.

The assets under construction or development are carried at cost. In 2006, industrial premises extending to a total of 10,225 m^2 NLA were completed. The leasehold on 16 ha of land was also acquired from the city of Rotterdam during the year. As at year-end 2006, the total carrying amount of the assets under construction and development was approximately EUR 124 million, compared with EUR 96 million at the end of 2005 (average carrying amount EUR 110 million (2005: EUR 124 million)).

At the end of 2005, construction of a new office at Schiphol-Centre began, which will house the Microsoft Nederland headquarters.

In 2006, work started on the development of a cargo building (approximately 31,200 m^2 NLA) at Schiphol-Zuidoost. 70% of this building is already leased to Menzies and Skylink.

Near Malpensa Airport, development has started on two office buildings and an industrial building, taking the total amount of property under develop-

Approved and current projects

Location	Category	Total net lettable area (NLA) in m²	Total net lettable area pro rata to SRE interest in m²	Pre-leased %	Estimated investment in EUR millions	Expected completion date
Schiphol-Centre	Office	16,000	16,000	69%	41	Q4 2007
Schiphol-Centre	Office	16,500	16,500	0%	43	Q3 2008
Schiphol-Zuidoost	Industrial	31,200	31,200	70%	24	Q2 2007
Rotterdam	Office	4,600	4,600	0%	11	Q2 2008
Malpensa, Italy	Office	3,500	2,450	0%	5	Q4 2007
Malpensa, Italy	Office	8,200	3,890	0%	11	Q4 2007
Malpensa, Italy	Industrial	12,500	8,750	100%	12	Q1 2007
Total		**92,500**	**83,390**		**147**	

ment in Italy as at year-end 2006 to around 24,200 m^2 NLA. As at year-end 2006, the total net lettable area of assets under construction or development in our development portfolio was approximately 93,000 m^2.

Assets used for operating activities
The category of assets used for operating activities includes the office space in the terminal building which we manage and operate (terminal lettings) as well as the fire stations, the Schiphol Group head office, several industrial buildings located on sites earmarked for future operational use and the building occupied by the snow clearance fleet (other).

In the Amsterdam Airport Schiphol Terminal Building offices are leased to airlines and companies with airport-related activities. We manage and operate these offices. The return on these activities showed an improvement compared with 2005, mainly as a result of a higher return on the terminal complex. Compared with the return on the investment property portfolio, however, the return on the terminal complex remains relatively low because letting space in the terminal is marked by relatively high operating expenses.

The above assets represented an average carrying amount of EUR 299 million in 2006 (EUR 309 million in 2005) and generated a RONA before tax of 9.1% in 2006 (7.8% in 2005).

Other assets
Apart from investment property we have investments in various associates, which are carried at net asset value. These include a minority interest in the investment activities of Tradeport Hong Kong Ltd. The operation of the Tradeport Hong Kong Ltd logistics centre did not perform as well as expected in 2006. Tradeport Hong Kong Ltd is a joint venture between Schiphol Real Estate, Fraport, China National Aviation Company Limited and Hong Kong Land Investment Limited.

Our share in results of associates was lifted compared with the preceding year, owing to the release of land in the Flight Forum Business Park.

Also included in other assets are the infrastructure assets directly attributable to the activities of the Real Estate business area, including associated operating expenses and other Schiphol Group overheads (and including the separate Real Estate business area overhead).

The average carrying amount of these other assets in 2006 was EUR 81 million (EUR 87 million in 2005). The other assets generate a negative result overall and, therefore, reduce the RONA of the Real Estate business area.

Opening balance sheet for tax purposes
In 2006, agreement was reached with the tax authorities concerning the opening balance sheet for tax purposes as at 1 January 2002. The non-recurring income resulting from this settlement is partly attributable to the Real Estate business area. A positive cash flow effect will only be seen when land is actually released, sold or developed because of the lower net amount of corporate income tax then payable. The finalisation of the opening balance sheet for tax purposes does not, however, affect the RONA for 2006 and will not affect the RONA at the time of release, sale or development of the land since the calculation of the return is based on the operating result and not the net result At the time of future development, there will only be a cash flow effect.