



■ Report of the Board of Management

On the one hand, we are satisfied with the net results achieved for 2006, which, excluding extraordinary items is higher than we had expected at the beginning of the year under review. On the other hand, the return on our aviation activities dropped considerably due to higher costs and one-off contributions to projects in the environs of Amsterdam Airport Schiphol. By contrast, the Consumer and Real Estate business areas performed excellently, once again demonstrating the strength of the AirportCity formula.

■ Financial Performance

Revenue reported by Schiphol Group in 2006 amounted to EUR 1,037 million, representing an increase of 9.4% compared with the 2005 figure of EUR 948 million.

Fair value gains on the investment property portfolio in 2006 came in at EUR 29 million (2005: EUR 12 million).

Operating expenses rose by 15.2% to EUR 759 million (2005: EUR 659 million).

The operating result for 2006 amounted to EUR 316 million, representing an increase of 1.7% compared with the 2005 figure of EUR 311 million.

The net result (attributable to shareholders) for 2006 amounted to EUR 527 million, compared with EUR 193 million in 2005, the increase being largely accounted for by non-recurring income of EUR 309 million resulting from the settlement agreement reached with the Dutch Tax Authorities concerning the opening balance sheet for tax purposes as at 1 January 2002. Without this non-recurring income and without the fair value gains on our property, the net result was EUR 198 million, an increase of 7.2%.

The return on equity (ROE) came in at 21.2% (2005: 8.9%), partly on the strength of the non-recurring income referred to above. Excluding the latter income and the fair value gains and losses on investment property, the ROE amounted to 8.0% in 2006 (2005: 8.5%).

Revenue

Aviation, with EUR 630.9 million (2005: EUR 572.5 million), made the largest contribution to our combined revenue of EUR 1,037 million. Aviation revenue grew by 10.2% in 2006 (9.0% in 2005). Revenue generated by Consumers amounted to EUR 230.5 million (2005: EUR 207.3 million), an increase of 11.2% (7.1% in 2005), with Real Estate reporting revenue of EUR 109.1 million (2005: EUR 104.3 million), an increase of 4.6% (8.5% in 2005) and Alliances & Participations reporting EUR 66.2 million (2005: EUR 63.5 million), an increase of 4.3%

(2.6% in 2005). Full details of the revenue generated by the individual business areas can be found in the dedicated business area sections in this report.

Operating expenses

EUR million	2006	2005	%
Costs of outsourced work and other external charges	412.7	352.0	17.2%
Employee benefits	152.8	133.5	14.5%
Depreciation and amortisation	160.8	161.8	-0.6%
Impairment	1.0	4.9	-80.0%
Other operating expenses	32.0	6.9	361.6%
Total	759.3	659.1	15.2%

Operating expenses rose by 15.2% (EUR 100 million), from EUR 659 million to EUR 759 million, the increase being largely attributable to:

- the increase in security costs at Amsterdam Airport Schiphol by EUR 32 million;
- an increase of EUR 10 million in the cost of energy;
- an increase of EUR 7 million in consultancy and other professional fees, mostly associated with privatisation and the Six Sigma project;
- a contribution of EUR 10 million for the alleviation of 'distress cases' among residents suffering from aircraft noise in the vicinity of Amsterdam Airport Schiphol and a contribution of EUR 8.5 million to Stichting Mainport en Groen (for landscaping of the airport and environs);
- an increase of EUR 19 million in staff costs, following the release of various employee benefit provisions with a net amount of EUR 15 million in 2005;
- non-recurring environmental costs of EUR 5 million for aeration of drainage ditches when the oxygen levels in the water became depleted due to the effects of de-icing fluids;
- higher costs for cleaning (EUR 2 million), bus transport (EUR 2 million), maintenance (EUR 2 million) and rents and leasing (EUR 2 million).

Outsourcing and other external charges

The costs of outsourced work and other external charges were up by 17.2% in 2006, at EUR 413 million (2005: EUR 352 million), or an increase of EUR 61 million, more than half of which (EUR 32 million) was the result of an increase in security costs at Amsterdam Airport Schiphol. We had to take on more security personnel in connection with the transition from a central security system to a decentralised system. Security costs at Amsterdam Airport Schiphol now account for EUR 203 million, or 26.7% (25.6% in 2005), of the overall operating expenses. Security costs are included in various operating expense categories, but mainly in costs of outsourced work and other external charges, employee benefits and depreciation and amortisation.

In addition to security costs, the costs of outsourced work and other external charges include energy costs of EUR 24 million (2005: EUR 14 million), maintenance costs of EUR 54 million (2005: EUR 52 million), consultancy fees of EUR 17 million (2005: EUR 10 million) and environmental costs of EUR 5 million for drainage ditch aeration.

Employee benefits

The employee benefits expense in 2006 was up by 14.5% (11.9% down in 2005), at EUR 152.8 million (2005: EUR 133.5 million). This increase of EUR 19 million was partly due to non-recurring events in 2005 when a large part of the provision for post-employment allowances to cover the costs of healthcare insurance following changes to the healthcare system and part of the provision for long-service bonuses (together totalling EUR 22 million) were released, set against which was an extra addition of EUR 7 million to the provision for job-related early retirement as a result of changes in the tax rules as part of government policy making early retirement less attractive to employers. Eliminating the net effect of these exceptional items in 2005 leaves a 2.9% increase in employee benefits.

The number of full-time equivalent employees increased by 114 in 2006, from 2,179 to 2,293. The two main factors behind this increase were an increase in the activities of the Aviation business area (+60 FTEs) and the increase of our interest in Schiphol Telematics (+28 FTEs). The network operating business became a wholly-owned subsidiary of Schiphol Group effective from the beginning of 2006, the smaller service side of the business being taken over by KPN. The general pay rise, which came into effect on 1 January, was 2.3%. The combined effect of the increase in the number of employees and the increase in pay added EUR 6 million to the employee benefits expense. The pension chargers, however, were down by 14.3% in 2006, at EUR 16 million (2005: EUR 19 million).

Depreciation and amortisation

Depreciation and amortisation charges in 2006 were EUR 1 million lower, at EUR 161 million (2005: EUR 162 million), a drop of 0.6%, following incidental disposals of EUR 5 million overall in 2005. Eliminating the latter effect reveals an increase in depreciation and amortisation charges of 2.3% in 2006.

Impairment

Impairment losses in 2006 amounted to EUR 1 million (2005: EUR 5 million). In connection with the projected losses and negative cash flows from operations at Lelystad Airport, write-downs of EUR 0.2 million were taken on the property, plant and equipment of Lelystad Airport. With the break-up of Schiphol Telematics into a network business and a service business with effect from 1 January 2006, the assets were divided between the two businesses. The carrying amount of property, plant and equipment remaining with the network business, totalling EUR 17 million, was written down by EUR 0.8 million in respect of technological obsolescence.

Depreciation, amortisation and impairment

Year	EUR million
2006	162
2005	167
2004	160

Other operating expenses

Other operating expenses amounted to EUR 32 million (EUR 7 million in 2005). The increase of EUR 25 million was mainly accounted for by a contribution of EUR 10 million for the alleviation of distress cases among residents suffering from aircraft noise in the vicinity of Amsterdam Airport Schiphol. We also made EUR 8.5 million available to Stichting Mainport en Groen, a foundation responsible for the realisation of landscaping projects around the airport.

Corporate income tax

With effect from 1 January 2002, Schiphol Group has been subject to corporate income tax. An opening balance sheet for tax purposes as at 1 January 2002 was finally agreed on with the Dutch Tax Authorities in 2006, according to which the fiscal equity was EUR 1.3 billion higher than the reported equity as at that date, chiefly owing to a higher tax base for land. In the opening balance sheet for tax purposes, land is carried at fair value whereas the reported carrying amount was based on historical cost. Calculated according to the corporate income tax rate of 25.5% in force with effect from 1 January 2007, the higher tax base yields non-recurring tax income of EUR 309 million to be recognised in the profit and loss

account. This non-recurring income is largely in the form of a deferred tax asset and does not have an immediate impact on cash flow.

Results

The operating result for 2006 amounted to EUR 316 million (2005: EUR 311 million), an increase of 1.7%. The result before interest, tax, depreciation, amortisation and impairment (EBITDA) amounted to EUR 478 million, which was almost unchanged compared with 2005.

The net financial expense increased by EUR 2 million, from EUR 34 million to EUR 36 million, the increase being largely attributable to the interest due on the corporate income tax payable for the period 2002 through 2004, amounting to EUR 4.3 million, which was charged to 2006.

The share in the results of associates in 2006 mounted to EUR 10.7 million, compared with EUR 1.8 million in 2005. These increased profits flowed from both our international associates and our domestic associates. Our international associates produced income of EUR 5.8 million in 2006 (2005: EUR 2.4 million), including a contribution of EUR 4.6 million on the part of Brisbane and EUR 1.2 million from JFK IAT (New York). In the case of our associates in the Netherlands, the strong improvement in results on the Flight Forum Business Park at Eindhoven Airport came from the sale of land for the development of offices and industrial units. Our Dutch associates together contributed EUR 4.9 million to profits compared with a loss of EUR 0.6 million in 2005.

The corporate income tax rate was reduced from 31.5% to 29.6% in 2006, cutting our tax bill by EUR 5 million.

The return on net assets after tax (RONA) worked out at 6.7%, which is the same as in 2005. Excluding the fair value gains on investment property, RONA for the year amounted to 6.1% (2005: 6.4%).

Investments and finance

The cash flow from operating activities improved from EUR 307 million in 2005 to EUR 362 million in 2006. The main reason for this was that less corporate income tax was paid in 2006, namely EUR 63 million compared with EUR 114 million in 2005. The positive cash flow from operating activities and investing activities (free cash flow) of EUR 119 million plus the existing cash balances were sufficient to fund repayments on loans and lease payments of EUR 35 million and dividend payments of EUR 55 million. The net amount of cash balances and bank overdrafts rose by EUR 37 million, from EUR 262 million to EUR 299 million.

The investments in property, plant and equipment during the year amounted to EUR 250 million compared with EUR 268 million in 2005.

Investments in property, plant & equipment and cash flow from operating activities



The most important projects were the 70 MB baggage handling programme (EUR 33 million), the expansion of Hall D baggage facilities (EUR 16 million) and Apron J (EUR 17 million) and the construction of the Pier B–Pier C corridor (EUR 11 million), Phase 1 and 2 of the P22 office building development (EUR 13.9 million) and Cargo Terminal 9 (EUR 12 million). Offsetting these investments were disposals totalling EUR 40 million, mainly connected with the sale of property to third parties. The level of capital expenditure differed strongly from one business area to another. Aviation, with EUR 173 million, accounted for the largest share of the overall investments. Real Estate followed with EUR 69 million, then came Consumers with EUR 12 million and, finally, Alliances & Participations with EUR 6 million.

Ratios

We are introducing two new cash flow ratios designed to support better financing policy decisions. The debt market and credit rating agencies in particular look at the extent to which a business is capable of generating cash in relation to its funding requirements. This is typically reflected in the FFO/total debt ratio and the FFO interest coverage ratio. FFO – funds from operations – is the cash flow from operating activities before changes in working capital.

The FFO/total debt ratio in 2006 was 35.9%, an improvement on the 2005 figure of 28.7%. Total debt is the year-end balance of all borrowings. The FFO interest coverage ratio in 2006 was 8.1 times, improving on the figure of 6.8 times in 2005. This ratio is calculated by dividing FFO plus gross interest expense by gross interest expense. This ratio replaces the old interest coverage ratio.

The improvement in these two ratios is expected to have a positive influence on Schiphol Group's credit rating by Standard & Poor's (AA-) and Moody's (Aa3).

In addition to these two ratios, Schiphol Group will continue to report the leverage (ratio of interest-



bearing debt to total equity plus interest-bearing debt), which is a function of financing policy. The leverage remains important inasmuch as the Aviation Act uses an assumed leverage to calculate the weighted average cost of capital (WACC) for the regulated aviation activities. As at year-end, Schiphol Group's leverage was 25%, down 4 percentage points on the year before (2005: 29%). This drop is the combined effect of a reduction in interest-bearing debt and an increase in shareholders' equity.

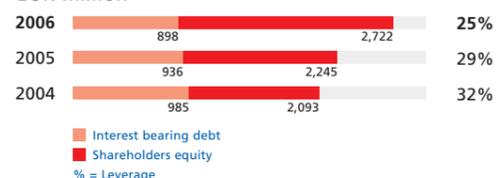
Financing policy

The total amount of loans outstanding and lease commitments (current and non-current) as at year end 2006 was EUR 951 million (2005: EUR 993 million). To derive the leverage, the total amount of loans outstanding and lease payments is adjusted by deducting non-interest bearing purchased long land leases and lease incentives, together worth EUR 53 million (2005: EUR 57 million).

The total amount of interest bearing debt outstanding and lease liabilities as at year-end 2006 was EUR 898 million (EUR 936 million in 2005). In 2006, new loans and lease liabilities totalling EUR 9 million were contracted and repayments totalling EUR 24.7 million were made. No new loans were issued under the Euro Medium Term Note (EMTN) programme in 2006.

Capital structure

EUR million



In accordance with our financing policy we aim to reduce the refinancing risk. The remaining terms to maturity of the loans issued under the EMTN programme range from 0 to 11 years.

Loan maturity profile

EUR million



The average interest expense fell in 2006 from 5.05% in 2005 to 4.98%.

Our interest rate risk management policy favours fixed-interest loans, achieved either by contracting loans at fixed interest or by making use of standard interest rate derivatives.