deferred tax liabilities (due to the high increase in fair values of investment property) and lower deferred tax assets (due to the reduction in the income tax rate from 25% to (ultimately) 20.5% in 2021).

Current assets increased by 246 million euros, largely as a result of deposits totalling 455 million euros compared to 290 million euros in 2017. The higher balance is the result of 500 million euros in green bonds, which were issued by Schiphol Group in November 2018. The deposits are reported in part under trade and other receivables, or under cash and cash equivalents, depending on their initial term.

The 500-million-euro green bond issuance is also the main reason for the increase in non-current and current liabilities of 569 million euros. The decision in 2018 to opt for contractual early repayment in 2019 caused the financial lease obligation with respect to the office building The Base to move from non-current to current liabilities.

Cash flow developments

Cash flow from operating activities increased by 69 million euros to 526 million euros as a result of the development in working capital of 35 million euros positive in 2018, compared with 9 million euros negative in 2017, and interest received on BACH redeemable preference shares of 23 million euros.

Cash flow from investing activities was positively influenced in 2017 by the sale of the Hilton Hotel for 144 million euros. Excluding this one-off income item, cash flow from investing activities amounted to 626 million euros negative in 2017, compared to 620 million euros negative in 2018. The increase in 2018 by 6 million euros was mainly caused by higher investments in fixed assets of 118 million euros and lower investments in deposits of 115 million euros.

Net cash flow from operating and investing activities - free cash flow - amounted to 94 million euros negative in 2018, compared with 25 million euros negative in 2017. Cash flow from financing activities was 311 million positive (2017: 55 million euros negative) mainly as a result of 440 million euros in net new financing (balance of repayments and borrowings) and a total dividend payment of 150 million euros. Net cash flow in 2018 amounted to 217 million euros positive (2017: 80 million euros negative). Consequently, the net amount of cash balances increased from 170 million euros at the end of 2017 to 387 million euros at the end of 2018.

Financing

The total amount of outstanding loans and lease liabilities rose by 463 million euros in 2018 to 2,622 million euros. The increase was mainly the result of 500 million euros in green bonds launched by Schiphol Group in 2018 to invest in increasing the sustainability of its airports. These senior unsecured bonds are due 5 November 2030 and carry an annual coupon of 1.5%.

Schiphol Group has a Euro Medium Term Note (EMTN) programme, making it possible at present to raise funds of up to 3.0 billion euros, of which 1,839 million euros was outstanding as of 31 December 2018. In addition, Schiphol Group has a Euro Commercial Paper (ECP) programme with a limit of 750 million euros and committed undrawn facilities of 400 million euros. This solid financing position is an important asset in view of Schiphol's increased financing needs in the years ahead as a result of the current and envisaged high level of investment.

Ratios

The most important financing ratios set out in our financing policy are the FFO/total debt and FFO/interest coverage ratios. Funds from operations (FFO) is the cash flow from operating activities adjusted for operating working capital. In 2018, FFO increased from 467 million euros to 491 million euros.

As a consequence of the green bonds issued in November 2018, the FFO/total debt ratio decreased to 18.7% at the end of 2018, compared with 21.6% at end-2017.

The FFO/interest coverage ratio in 2018 was 6.6x, a slight deterioration relative to the 6.9x recorded in 2017. In addition to these two ratios, we apply the leverage ratio (ratio of interest-bearing debt to total equity plus interest-bearing debt). At the end of the financial year, Schiphol Group's leverage ratio stood at 38.9% (2017: 35.2%). Both FFO/interest coverage ratio as well as leverage satisfy the internal requirements of a value higher than 4.0x and between 30.0% and 50.0%, respectively.

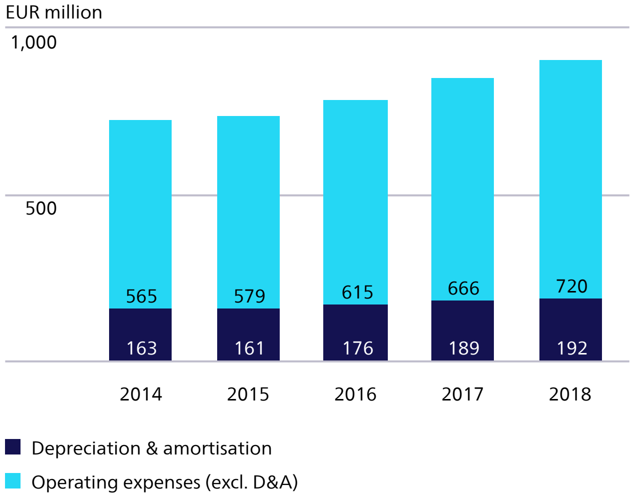
Financial solidity

Royal Schiphol Group's financial policy seeks to ensure a solid financial position and good creditworthiness with at least an A rating from two reputable credit rating agencies. This is vital to our ability to finance the necessary large-scale investments. Profitability is an essential factor in maintaining a high credit rating. The return generated by Schiphol Group determines to what extent we create economic value for our shareholders. It equally determines the extent to which financial stakeholders believe that Schiphol Group is equipped to bear investment risks.

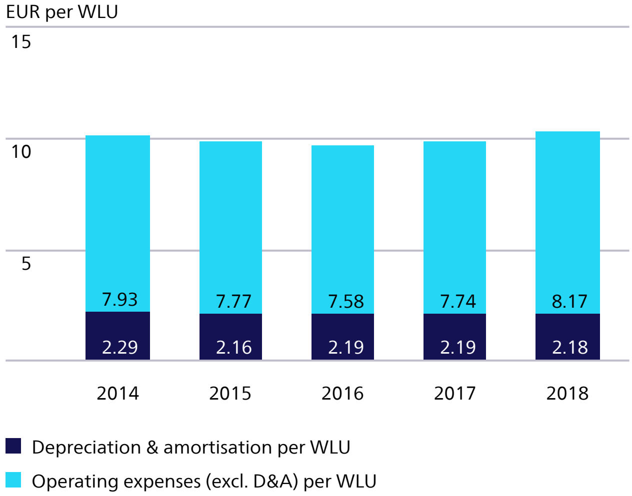
Creditworthiness

Schiphol Group independently raises financing through the capital markets and banks. Good creditworthiness is a prerequisite for safeguarding this ability and being able to make

Aviation business area costs



Costs per WLU (Aviation)



the necessary long-term investments in capacity and quality. The long-term credit rating issued by Standard & Poor's in 2018 remained unchanged at A+ with a stable outlook. Similarly, Moody's long-term rating of A1 remained unchanged with a stable outlook.

Return

Generating a sufficient return is also important to maintain the ability to independently raise financing, as this will enable us to secure access to the capital markets with favourable conditions. The return requirement applied by the Dutch State consists of a return on equity of 5.6%. A return requirement serves as an added incentive to operate cost-effectively and to generate a higher result through non-aviation activities, such as real estate, parking and concessions. The new Aviation Act contains a mechanism permitting Schiphol Group to employ a portion of the return exceeding the standard return to lower the airport charges. With a return on equity of 7.0% in 2018, Schiphol Group satisfies the return requirement.

Focus on cost control

In order to improve returns while maintaining competitive airport charges for our aviation activities, we continuously focus on cost control with due regard for the price-quality ratio. We wish to continue to meet the high expectations of travellers and airlines. A proper consideration of, and insight into, the long-term implications of the choices we make are essential, particularly where new investments are concerned. By focusing on the controlled development of costs while maintaining the necessary quality and performance, we endeavour to maintain our financial flexibility and resilience.

Over 50% of all Aviation costs are directly related to the infrastructure and assets of Amsterdam Airport Schiphol. 'Total cost of ownership' as a guiding management principle remains essential if we are to remain cost-effective in the long term. The enhancement of contract management procedures further enables Schiphol to derive greater added value from supplier relationships. Where possible, we challenge suppliers to apply the full extent of their knowledge and expertise to enhance service provision and devise smart, cost-effective and innovative solutions. We do so, for instance, through open market consultation prior to major tenders and by applying Best Value Procurement where relevant.

We monitor the development of our costs via the Work Load Unit indicator (WLU: one passenger or 100 kilogrammes of cargo). In recent years, the costs per WLU at Amsterdam Airport Schiphol indicate a rising trend, with per-WLU operating expenses returning to 2014 levels in 2018. The ongoing growth in the number of passengers gives rise to relatively costly operational measures, which are needed to ensure the quality and safety of operations.

Contracting practices

Royal Schiphol Group is one of the largest semi-public commissioning authorities in the Netherlands. As an organisation, we play a coordinating role that sees us work with a wide range of different parties on a daily basis. Our tendering policy reflects our standards and values pertaining to Corporate Responsibility, and underpins our management decisions.

Mutual trust

At the initiative of the Commissioning Authorities Forum, in which Royal Schiphol Group takes part, the Dutch construction and civil engineering sector has reached agreement on four leading principles for good contracting practice. The underlying aim is to ensure that collaboration throughout the chain promotes (1) pride, (2) professionalism and (3) job satisfaction, resulting in (4) a successful project. The key pillars of this approach are mutual trust and reliability. Through this philosophy, the