

Report of the Supervisory Board

Annual Report

The Supervisory Board is pleased to present the annual report, which includes the financial statements for 2018. The annual report is prepared by the Schiphol Group Management Board; KPMG Accountants N.V. audits the financial statements and has issued an [unqualified opinion](#). The Supervisory Board's Audit Committee has discussed the financial statements extensively with the Chief Financial Officer (CFO), her team and the external auditor. The Supervisory Board subsequently discussed the annual report with the Management Board in the presence of the external auditor. Based in part on these discussions, the Supervisory Board has concluded that this annual report meets all relevant regulations and fulfils all governance and transparency requirements, and that it provides a fair and comprehensive picture of the results, risks and events subject to the Supervisory Board's supervision.

The Supervisory Board approves the financial statements and concurs with the Management Board's proposal to distribute a dividend of 117 million euros on the issued share capital. The remaining portion of the net result of 161 million euros will be added to the retained earnings.

The financial statements will be submitted to the General Meeting of Shareholders for adoption by the shareholders on 16 April 2019. The Supervisory Board proposes that the Management Board be granted discharge in respect of the management carried out, that the Supervisory Board be granted discharge for the supervision exercised and that the financial statements be adopted.

A. Supervision

The Supervisory Board supervises and advises the Management Board in setting and achieving the strategic objectives. In this report, the Supervisory Board explains how it has fulfilled its role over the past year. Looking back, the Supervisory Board views 2018 as a year of contrasts. On the one hand, Schiphol welcomed a record number of over 71 million passengers; on the other hand, society seems to have adopted an increasingly critical attitude towards the aviation sector.

2018 can also be regarded as a transitional year. In May 2018, Dick Benschoop was appointed as President and CEO of Royal Schiphol Group. Together with the Management Board, Mr Benschoop has



set the following priorities for 2018: (1) safety, (2) quality, innovation and sustainability, (3) capacity and development of the airport and (4) the organisation and culture. These priorities are consistent with Schiphol Group's current strategy.

Mr Benschop and the team at Schiphol immediately started preparing for discussions on the development of the airport system in the Netherlands from 2020 onwards. In this respect, an intensive process has taken place, involving many conversations with the members of the Omgevingsraad Schiphol (ORS), as well as local residents, local politicians and other relevant representatives. Schiphol Group and the aviation sector together took a clear position that the current socio-economic climate does not justify more than a controlled, moderate growth of the airport system at both Schiphol and Lelystad Airport. Even though no agreement has been reached between the parties in the ORS, the Supervisory Board is impressed with the efforts made, the relationships built with various stakeholders and the tone expressed in the discussions and conversations. The Supervisory Board hopes that the Minister of Infrastructure and Water Management (I&W) will be able to strike the right balance between the interests of all involved parties when deciding on further development. The opening of Lelystad Airport to accommodate leisure traffic from Schiphol and create room for the development of ICA and transfer traffic will also be key in executing the agreements made in 2008.

Furthermore, a 'Vision 2050' document, setting out the long-term focus of Royal Schiphol Group, is currently being drafted and will be available in 2019. The outcome of this extensive research will also be shared with the Ministry of I&W as input for the Aviation White Paper, which is expected to be published in the second half of 2019. The Supervisory Board has been informed as to the headlines of the vision and is looking forward to receiving the final version of the document.

The Supervisory Board was closely involved in addressing the major challenges that the Management Board is facing. The Supervisory Board is aware that the Management Board operates in a complex stakeholder environment where interests must be carefully balanced. Throughout the year, the Management Board updated the Supervisory Board on its consultations and discussions with ministries, surrounding municipalities, local residents, the aviation sector and other stakeholders. Recurring items in these discussion sessions were transparency and mutual understanding.

The 2019-2022 Tactical Plan and the objectives of the Management Board, which are addressed in the Management Agenda 2018, reflect the objectives of the Management Board and set the framework for the supervision exercised by the Supervisory Board as well as the assessment of the performance of the Management Board of Schiphol Group.

Main points of attention

Safety

Safety is a key item and permanently on the agenda. In 2018, the Supervisory Board was updated on safety in a general sense each quarter. Major developments in the field of safety included the Integral Safety Management System (ISMS) and the internal Schiphol4Safety programme. The ISMS is a collaborative initiative through which Air Traffic Control the Netherlands (LVNL), airlines, refuelling services, ground handlers and Schiphol collaborate closely in order to ensure optimal safety. In October 2018, the ISMS published the 'Roadmap Safety Improvement Schiphol' at www.integralsafetyschiphol.nl. The roadmap contains 30 safety measures that have recently been implemented, are currently being studied, or are currently implemented. The sector specifically focused on further reducing runway incursions, minimising risks involved in runway combination changes and runway crossings, optimising collaboration between the various sector parties and the optimal arrangement of infrastructure and services within this infrastructure. The Supervisory Board is satisfied with the integrated approach being taken by the ISMS partners and acknowledges that this collaboration makes the Netherlands a world leader in aviation safety.

In addition, Schiphol Group organised a number of Safety Walks with Supervisory Board members in which attention was paid to specific safety-related topics, as well as potential risks and measures needed to mitigate these risks. The Supervisory Board was, furthermore, regularly updated with regard to Schiphol Group's follow-up on the 2017 report of the Dutch Safety Board (OvV).

The Supervisory Board will closely monitor both the progress of the ISMS and the follow-up of the report of the Dutch Safety Board.

Sustainability

In monitoring the strategy pursued by Schiphol Group, the Supervisory Board has paid particular attention to sustainability. For the Supervisory Board, it is extremely important that concrete sustainability objectives are developed for the organisation. The Supervisory Board was kept well informed of the various activities and is convinced that the right steps are being taken to further define and anchor sustainability as a key element of the strategic agenda. Among other things, the Supervisory Board was updated on the sustainability plan published by the Dutch aviation sector ('Sectorplan Slim en Duurzaam'). Although the plan should be regarded as a starting point for further discussions regarding sustainability, the Supervisory Board believes that the joint action agenda provides a clear message from the sector. The Supervisory Board recognises some of Schiphol's achievements in 2018, including 100 electrical buses on landside, an agreement with Eneco to source 100% electrical Dutch wind power, the green bond issue, the incentives for sustainability in airport charges, and the inclusion of sustainability as an important focus area in the draft Vision 2050. As part of this, the sustainability team

formulated a number of indicators that are related to the UN Sustainable Development Goals (SDGs). The Supervisory Board encourages Schiphol Group to continue taking a leading position and remain a frontrunner in the field of sustainability and the societal and health impact of aviation.

May holiday power disruption

Following the extremely busy May holiday in 2017, additional measures were taken in preparation for the equivalent 2018 holiday period, in order to manage the high numbers of passengers that were anticipated. Unfortunately, during the first weekend of the 2018 May Holiday, a voltage drop in TenneT's high-voltage net occurred, resulting in disruption to a number of important operational processes and leading to delays for passengers. In order to prevent similar consequences in the future, Schiphol Group instructed the Netherlands Organisation for Applied Scientific Research (TNO) to make recommendations on how similar problems can be prevented or risks can be mitigated in future. The recommendations involve conducting adequate testing of systems at Schiphol, ensuring identical procedures for temporary and permanent facilities and establishing a multidisciplinary technical response team. The TNO report, the follow-up actions on the TNO recommendations, as well as Schiphol Group's press releases, have been shared and extensively discussed with the Supervisory Board. The evaluation of the functioning of the internal crisis organisation was also shared and discussed with the Supervisory Board. It was agreed that the Management Board will update the Supervisory Board's Safety, Sustainability & Stakeholders Committee on the follow-up of the recommendations.

Capital Programme

The Supervisory Board has been updated regularly on the progress of the Capital Programme (the capital investments in the new 'Pier A' and the new terminal). This took place during the meetings of the full Supervisory Board, as well as in the meetings of the Capital Programme, Operations & Investments Committee of the Supervisory Board. Topics discussed included the terminal design, the progress on the construction of the pier, the programme director's (voluntary) resignation and the search for a successor, digital aspects, and budgets for (parts of) the Capital Programme in general. It has been agreed with the Management Board that the Supervisory Board will be kept updated in 2019 through monthly meetings of the Capital Programme, Operations & Investments Committee.

Lelystad Airport

The developments regarding Lelystad Airport received significant publicity during the past year. Based on the 2008 Alders Agreement, Lelystad Airport was envisaged to serve as an overflow airport ('overloopluchthaven') for Schiphol, accommodating leisure traffic from Schiphol in such way that the room created at Schiphol could be used for flights to destinations that contribute to Schiphol's hub function. The Supervisory Board has been informed regularly on the developments and issues

regarding Lelystad Airport. Political discussions on the required air traffic distribution ruling ('verkeersverdelingsregel') are still ongoing. The Supervisory Board appreciates the efforts of the Management Board and the team of Lelystad Airport to create political and societal support and to be fully prepared for the opening of the airport for commercial air traffic on 1 April 2020.

Top 8 performance indicators Schiphol organisation

In December 2018, the Management Board presented to the Supervisory Board the headlines of the new performance indicators framework for the Schiphol Group organisation. These new indicators are meant to provide renewed focus for the organisation and form the basis of the Management Agenda for 2019. The Supervisory Board advised the Management Board to adjust the performance indicators to ensure that passenger satisfaction would be the first mentioned indicator and complimented the Management Board on the framework.

Socio-economic commitment and responsibility

General

Schiphol's socio-economic function is to contribute to and ensure the continuity and quality of the airport and the development of its network as a key component of the Dutch economy. To perform this task effectively, it is essential to find the appropriate balance between the various stakeholder groups, even though their interests may differ considerably in some cases. The Management Board discussed various topics in this area with the Supervisory Board. One such topic remains the significant shortage of Royal Netherlands Marechaussee (immigration) staff, which resulted in long queues at border passages for flight arrivals at the airport. The availability of immigration staff will remain a challenge in 2019, particularly in light of Brexit.

Schiphol Local Community Council

As indicated in the introduction of this chapter, a major objective in 2018 involved reaching an agreement with the Schiphol Local Community Council (ORS) on a noise legislation framework to be implemented in the Schiphol Airport Decree. Accordingly, the outcome of these discussions has an impact on the strategy for the forthcoming years. The starting point for the discussions was expected to be the updated environmental impact assessment (MER), which was scheduled for mid-2018, and would set out, among other things, the growth potential. However, the MER publication was postponed as it contained minor flaws. A draft MER was published in October 2018 and used as the basis for further discussion with the ORS parties. The Management Board informed the Supervisory Board that it would not propose to the ORS to make full use of the available growth potential as per the MER outcome, but rather that the aim would be a controlled growth path, taking into account the opening of Lelystad Airport. The Supervisory Board was updated regularly on the progress of the meetings and the outcomes thereof.

Strategic issues and projects

Terminal 4 - John F. Kennedy Airport

JFKIAT, an affiliate of Schiphol Group and operator of Terminal 4 of JFK Airport, participated in a tender to develop the south side of JFK Airport. After discussing the proposal, the Supervisory Board acknowledged that the ambition and the proposal aligned with the objectives and ambitions of the international strategy. At the same time, the Supervisory Board advised caution regarding the position of a Schiphol Group US affiliate as the developer for the project. The Management Board took into account the Supervisory Board's concerns and initiated a search for a local development partner. After further discussion, the Supervisory Board supported the submission of a financial proposal by JFKIAT for this project. In October 2018, the Management Board and the Supervisory Board were informed that Schiphol Group had, unfortunately, not been selected as the preferred party for the project. JFKIAT is currently assessing the possible extension of the A-concourse and further terminal development. As major shareholder in JFKIAT, Schiphol Group will closely monitor these further developments.

Groupe ADP

The contemplated privatisation of Groupe ADP was discussed, given that this may have consequences for the existing industrial cooperation between Groupe ADP and Schiphol, and the related cross-shareholding. A prerequisite for the privatisation is the adoption of the French 'Loi Pacte', allowing the French state to sell its controlling stake in Groupe ADP. The Pacte law is currently expected to become effective during the course of 2019. Schiphol Group is preparing for the various scenarios that may occur.

Main contracts

The Management Board informed the Supervisory Board on the process of selecting its 'main contractors'. In January 2019, Schiphol commenced long-term contracts with BAM, Heijmans and VolkerWessels. The construction firms will be able to carry out assignments at Schiphol with a total estimated value of 2.5 to 3.5 billion euros over a maximum period of nine years. The assignments will focus on maintaining and investing in existing infrastructure at the airport. The new contracts will be effective from 1 April 2019.

Brexit

The potential impact of Brexit and Schiphol's strategy in response to this development were discussed extensively in the Supervisory Board. The main impact of Brexit is considered to be in the field of security. It is currently envisaged that One Stop Security will remain in place for passengers travelling to and from the United Kingdom. The Supervisory Board has the view that Schiphol is well prepared for any scenario, but aware that there may be consequences for passengers.

Mandatory non-aviation contribution

As per the new Aviation Act, the shareholders must set a mandatory contribution to help smooth major increases or

decreases in the aviation charges. The Ministry of Finance, in its capacity as representative of the Dutch government as majority shareholder of Schiphol Group, shared a proposal for the contribution amongst all shareholders. The shareholders meeting adopted the contribution as per the proposal of the Dutch government.

Revised design for the new terminal

The design of the new terminal, which will be constructed as part of the Capital Programme, was adjusted from an origin and destination terminal to a transfer terminal. This was in order to improve efficiency, flexibility and to enable the airport to manage future developments effectively. The Management Board presented the adjusted design, as well as the reasons and the consequences thereof, to the Supervisory Board in an additional meeting in July 2018. The discussion included, among other things, timing, stakeholders, design style, future developments and technology. The Supervisory Board supported the proposal. The amended design and corresponding budget increase were approved by Schiphol Group's shareholders by way of a written shareholder resolution.

Project Quebec

Project Quebec concerns the development of a second taxiway 'Quebec' and a viaduct in order to complete Schiphol's circular double taxiway. The Management Board presented the project to the Supervisory Board in its meeting of 5 October 2018. The Supervisory Board agreed with the Management Board that the construction of a second taxiway is required for safety reasons, among other factors, and approved the project. As Project Quebec is a complex project (particularly due to the construction of the viaduct and the overlap with other projects), the Supervisory Board requested an update from the Management Board once a further assessment of the project phasing had been completed. Project Quebec was approved by Schiphol Group's shareholders by way of a written shareholder resolution.

Projects that have been approved by the Supervisory Board

Under the Supervisory Board Regulations, investment and divestment decisions with a value in excess of 25 million euros require Supervisory Board approval. In addition to Project Quebec, the following project proposals were approved by the Supervisory Board in 2018:

Explosion Detection System Cabin Baggage: As a result of new directives, Schiphol has been obliged to replace all 79 screening machines for cabin baggage with screening machines equipped with an Explosive Detection System.

Refinancing The Base: The Supervisory Board approved the early termination of the financial lease agreement for The Base building and the corresponding termination payment.

Additional investment approval Apron South-East: The budget for the construction of the South-East Apron was adjusted in view of additional and initially unforeseen costs in connection with the clearance of PFOS-contaminated soil. PFOS is non-biodegradable toxic fluorine, which was used in fire-fighting foam, as well as in other substances. It has been classified as a possibly dangerous substance.

Commercial revenues

The Management Board discussed the revenues from retail and food and beverage outlets and parking with the Supervisory Board. Although the spend per passenger decreased, revenues increased in absolute terms as a result of an increased number of passengers. The Supervisory Board believes this is a positive trend.

International strategy

In December 2018, Schiphol Group's updated international strategy framework was discussed with the Supervisory Board. The main objective of the strategy is to improve Schiphol Group's financial robustness and strengthen Schiphol Group as an airport operator. The Supervisory Board supports the strategy and approved it, but advised that the international strategy should not distract from the matters at hand on a national level.

Other topics

Amendment to the Supervisory Board Rules

The Supervisory Board Rules, including the Supervisory Board committee charters, were amended and approved on 31 August 2018, and a few further (minor) amendments were approved on 14 December 2018. The rules can be found in the [Investor Relations section at \[www.schiphol.nl\]\(http://www.schiphol.nl\)](#).

ACM commitments

In 2017, the Netherlands Authority for Consumers and Markets (ACM) published a draft decision on commitments made by KLM and Schiphol Group, at the request of ACM, to eliminate competition risks. These commitments aim to ensure a level playing field for competitors at Schiphol. As part of the agreement, Schiphol and KLM will not discuss the positions of other airlines, and Schiphol committed to independently developing its own plans regarding our investments, charges, and marketing strategy. The commitments were declared binding in February 2018. The Supervisory Board was informed of the final decision by ACM. The topic is discussed by the Management Board and Supervisory Board on a regular basis.

Financial reporting and risks

Throughout 2018, the Management Board provided monthly financial reports to the Supervisory Board in which Schiphol Group's actual financial results were compared to the 2018

budget, the latest estimate for 2018 and the results for 2017. These reports were discussed by the Supervisory Board. There were also extensive discussions on risk management. External developments impacting on the risk profile are discussed annually as are developments regarding Schiphol Group's main risks.

Tactical Plan

The 2019-2022 Tactical Plan was discussed by the Supervisory Board in August 2018 and finally approved in October 2018, after informing the shareholders of the new tactical plan. A difference from earlier Tactical Plans was that Schiphol Group had to plan three years ahead as a result of the airline consultation process under the new Aviation Act. The Supervisory Board compliments Schiphol Group for the manner in which it has conducted and completed the new consultation process.

No conflicting interest

There were no transactions in 2018 involving conflicts of interest on the part of Management Board members, Supervisory Board members, shareholders or the external auditor that were of material significance to Schiphol Group and/or the relevant parties.

B. Quality Assurance

Members

At year-end 2018, the Supervisory Board had two female and five male members. The Management Board had two female and two male members. In the period ahead, the Supervisory Board will continue to work with the Management Board to achieve as much diversity as possible, in all respects, among the seats of both bodies. Schiphol runs a development and leadership programme to ensure that both men and women can advance into senior management and executive positions. Schiphol aims to achieve a balanced composition of the various bodies in terms of gender, experience, age, professional background and nationality. Further personal details on each member of the Supervisory Board can be found in the following section of this annual report.

In making new appointments, the Supervisory Board aims to ensure the complementary expertise of its members, particularly in relation to the fields of knowledge that are relevant to Schiphol Group; these are listed in the Supervisory Board Profile (Schedule 2 to the Supervisory Board Regulations). In January 2019, the Supervisory Board updated the Supervisory Board Profile. The overview below indicates the fields of knowledge represented by each Supervisory Board member. The distribution of fields of knowledge as set out below will be taken into account when filling any new vacancies that arise.