Notes to the consolidated financial statements

General information

Royal Schiphol Group N.V. is a public limited liability company with its registered office in the municipality of Haarlemmermeer at Evert van de Beekstraat 202, 1118 CP, Schiphol, the Netherlands. Royal Schiphol Group N.V. trades under the name of Schiphol Group, Luchthaven Schiphol and Royal Schiphol Group N.V.

Royal Schiphol Group is an airport company; Amsterdam Airport Schiphol is its main airport. The airports of the group create value for the Dutch economy and for society at large.

Schiphol Group's mission is Connecting the Netherlands: facilitating optimal connections with the rest of the world in order to contribute to prosperity and well-being in the Netherlands and elsewhere. Schiphol Group's ambition is to develop Amsterdam Airport Schiphol into Europe's Preferred Airport, the airport of preference for travellers, airlines and logistics service providers. We aim to serve them with a well-positioned airport and modern facilities.

On 14 February 2019 the Supervisory Board authorised the financial statements for issue as prepared by the Management Board. The Management Board will submit the financial statements for adoption by the General Meeting of Shareholders to be held on 16 April 2019.

Accounting policies

Schiphol Group's accounting policies on consolidation, measurement of assets and liabilities and determination of results are set out below. These policies are in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU), and are applied consistently to all the information presented. The applicable statutory provisions on annual reporting as included in Part 9, Book 2 of the Dutch Civil Code have also been applied consistently. Schiphol Group applies the historical cost convention for measurement, except for investment properties and derivative financial instruments, which are recognised at fair value.

Changes in the accounting policies

Schiphol Group has elected to implement a change in accounting policies for the classification of movements in investments in deposits with an original maturity exceeding three months within the consolidated statement of cash flow. These investments are reported under trade and other receivables and movements were previously reported under cash flows from operating activities in movements in working capital in the consolidated statement of cash flow. However, given the purpose of these investments (which is to finance capital expenditure in the short term) reporting of the cash movements as part of cash flow from investing activities provides more relevant information. The comparative figures have been adjusted for this reclassification.

	2017		
(in thousands of euros)	Adjusted	Previously reported	Δ
Cash flow from operating activities			
Result for the year	**285,540**	**285,540**	**-**
Operating result	358,661	358,661	-
Operating result after adjustments	**564,550**	**564,550**	**-**
Movements in working capital	-9,400	-199,400	190,000
Cash flow from operations	**555,150**	**365,150**	**190,000**
Paid income tax, interest and dividends received	-98,038	-98,038	-
Cash flow from operating activities	**457,112**	**267,112**	**190,000**
Investments in deposits	-290,000	-	-290,000
Proceeds from deposits	100,000	-	100,000
Repayment on other loans	2,422	2,422	-
Other cash flows from investing activities	-294,384	-294,384	-
Cash flow from investing activities	-481,962	**-291,962**	**-190,000**
Free cash flow	**-24,850**	**-24,850**	**-**
Cash flow from financing activities	-55,333	-55,333	-
Net cash flow	**-80,183**	**-80,183**	**-**
Opening balance of cash and cash equivalents	250,767	250,767	-
Net cash flow	-80,183	-80,183	-
Exchange and translation differences	-214	-214	-
Closing balance of cash and cash equivalents	**170,370**	**170,370**	**-**

New and amended standards that are mandatory with effect from 2018

Schiphol Group applies two new standards with effect from 1 January 2018: IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers.

IFRS 9

IFRS 9, Financial Instruments has replaced IAS 39, Financial Instruments Measurements & Recognition and contains new requirements for the classification, measurement, impairment and hedge accounting of financial instruments. The classification is based on the business model and the cash flow characteristics of the instrument and comprises three main categories for the classification of financial assets: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. The existing requirements of IAS 39 for the classification of financial liabilities are largely unchanged under IFRS 9. Furthermore, IFRS 9 contains a new impairment model based on expected credit losses as opposed to incurred credit losses. This will result in earlier recognition of credit losses for financial assets.

Classification and measurement

The table below sets out the changes in the classification and measurement of financial instruments. The change in the measurement to the carrying amount as at 1 January 2018 can be attributed in full to additional recognised expected credit losses, as discussed in the following paragraph.

(in thousands of euros)	Classification IAS 39	Classification IFRS 9	Carrying amount IAS 39	Carrying amount IFRS 9
Borrowings [1]	Other financial liabilities	Amortised cost	2,064,874	2,064,874
Borrowings [2]	Fair value through profit and loss (designated)	Fair value through profit and loss (designated)	44,973	44,973
Trade payables [1]	Other financial liabilities	Amortised cost	120,809	120,809
Interest payable [1]	Other financial liabilities	Amortised cost	32,191	32,191
Liabilities			**2,262,847**	**2,262,847**
Loans to associates, BACH RPS [3]	Held to maturity	Amortised cost	-53,436	-53,418
Loans to associates, dividend BACH RPS [3]	Loans and receivables	Amortised cost	-22,449	-22,449
Performance shares BACH [4]	Fair value through profit and loss	Fair value through profit and loss	-12,169	-12,169
Loans to associates [3]	Held to maturity	Amortised cost	-8,767	-8,767
Loans to third parties [3]	Held to maturity	Amortised cost	-607	-607
Derivatives financial instruments [5]	Fair value - hedging instrument	Fair value - hedging instrument	-20,022	-20,022
Trade receivables [6]	Loans and receivables	Amortised cost	-120,336	-120,039
Cash and cash equivalents (incl. deposits) [6]	Loans and receivables	Amortised cost	-360,371	-360,290
Assets			**-598,157**	**-597,761**
Total			**1,664,690**	**1,665,086**

1 Liabilities classified as 'other financial liabilities' under IAS 39 are presented as 'financial liabilities at amortised cost' under IFRS 9. The initial valuation is carried at fair value less attributable transaction costs. Subsequently, the loans are valued at the amortised cost price. This is unchanged compared to IAS 39.
2 One financial liability was already classified under IAS 39 as measured at fair value through profit and loss, which remains unchanged under IFRS 9. This prevents an inconsistency in the accounting for changes in the value of the loan on the one hand and the related real estate portfolio on the other.
3 Loans to associates were classified under IAS 39 as financial assets held to maturity. Under IFRS 9, these financial assets are classified as a financial asset at amortised cost. The objective of these assets is to collect contractual repayments and interest. The initial valuation is carried at fair value less attributable transaction costs. Subsequently, the loans to associates are valued at the amortised cost price. This is unchanged compared to IAS 39.
4 This asset is measured at fair value. Net gains and losses are recognised in profit or loss.
5 Schiphol Group only holds derivatives for the purpose of hedging currency and interest rate risks. As under IAS 39, these derivatives are valued at fair value and changes are recognised in the reserve for hedging transactions that is part of equity.
6 Trade receivables, cash and cash equivalents, deposits and other receivables were classified under IAS 39 as loans and receivables, under IFRS 9 as financial assets at amortised cost. The objective of these assets is to collect contractual repayments and (possibly) interest. In the valuation methodology of these assets, there is no change due to the implementation of IFRS 9.

Credit losses

IFRS 9 replaces the 'incurred credit losses' model in IAS 39 with an 'expected credit losses' model. This new model applies to financial assets measured at amortised cost comprising receivables from and loans to associates, trade receivables, cash and cash equivalents and deposits.

Loans to associates, cash and cash equivalents and deposits

Under IFRS 9, Schiphol Group measures the expected credit losses on loans to associates, cash and cash equivalents and deposits on the basis of possible situations and developments that may lead to a counterparty defaulting within a period of 12 months. However, if a significant change has occurred in the credit risk, expected credit losses are based on possible situations and developments during the expected total lifetime of the receivable that may lead to the associate or bank defaulting. A significant increase in the risk is deemed to have occurred if payment is more than 30 days past due. The debtor is in default if payment is more than 90 days past due. Relevant information that is accessible without undue cost or effort is used to determine (twice a year) whether the credit risk has actually increased significantly and to measure expected credit losses. This includes both quantitative and qualitative information as well as historical and prospective information.

The change in the credit losses recognised for each financial asset as of 1 January 2018 is specified in the table below.

(in thousands of euros)	Carrying amount IAS 39	Carrying amount IFRS 9
BACH Redeemable Preference Shares	53,436	53,418
BACH Dividend on Redeemable Preference Shares	22,449	22,449
Loans to associates [1]	**75,885**	**75,867**
Loans to third parties [2]	**607**	**607**
Other loans to associates [2]	**8,767**	**8,767**
Cash and cash equivalents (incl. deposits) [3]	**360,371**	**360,290**

1 For measurement of the expected credit losses on the Redeemable Preference Shares (RPS), alignment was sought with debt paper issued by BACH and the expected credit losses that is reported under the credit rating of this debt paper. The expected credit losses on RPS were derived from this information, taking into account deviations in duration and risk profile. The receivables arising from the dividend on the RPS is fully received in the month of June 2018. Also for this reason, no expected credit loss was taken into account for this receivable as of 1 January 2018.
2 For four out of five loans to associates and third parties, the expected credit loss, based on the information available to us with reasonable costs and effort, is estimated at nil. For one of these loans, there was an increased credit risk as at 31 December 2017, which was however already adequately taken into account in the valuation of this loan as of that date.
3 The financial institutions with which Schiphol Group does business have a high credit rating (at least a S&P credit rating in the A category). The expected credit losses with regard to the deposits are determined based on the probability of default according to the credit default curves that are available for these institutions. Given the direct solvency of cash at these institutions, the expected credit loss on cash is estimated at nil.

Trade receivables

Under IFRS 9, Schiphol Group opts to base its measurement of expected credit losses relating to trade receivables on all possible situations and developments that may lead to default of the debtor during the expected total lifetime of the receivable. This is primarily derived from a provisions matrix based on historical data on credit losses per business area. Additionally, the measurement of credit losses is based on information accessible without undue costs and effort about current developments and expectations with regard to the market and significant trading relationships. The provision covers 100% of the receivables owed by debtors that are in bankruptcy or have applied for a suspension of payments, as well as receivables older than one year. Assessment of the expected credit losses as at 1 January 2018 based on the method described above led to an increase in the provision as at that date of 0.3 million euros.

(in thousands of euros)	Weighted average loss rate	Gross carrying amount	Loss allowance	**Carrying amount**
Current (not past due)	0.4%	101,394	374	**101,020**
1-30 days past due	0.8%	13,075	103	**12,972**
31-60 days past due	7.4%	3,773	278	**3,495**
61-90 days past due	9.9%	1,935	192	**1,743**
91-180 days past due	20.6%	742	153	**589**
181-365 days past due	66.6%	659	439	**220**
>365 days past due	100.0%	1,360	1,360	**-**
Bankruptcies	100.0%	1,869	1,869	**-**
	3.8%	**124,807**	**4,768**	**120,039**

As the financial effect (income or expense) of the periodic assessment of expected credit losses on financial assets is not material, this effect is not disclosed as a separate line item in the consolidated statement of income but as part of depreciation, amortisation and impairment. For more details reference is made to note 6. Depreciation, amortisation and impairment expenses.

Hedge accounting

Schiphol Group has opted to apply the new requirements relating to hedges under IFRS 9. The current hedge accounting relationships are intended to hedge 100% of the currency risk on an outstanding receivable in Australian dollars and a loan in Japanese yen. This is in line with the Company's financial risk management policy. The hedging relationships meet the requirements of IFRS 9 for hedge accounting. The translation differences on the hedged financial instruments and changes in the fair value of the hedging instruments are initially accounted for in the hedge reserve and both are transferred to profit or loss when the hedge accounting relationship is settled. Forward points are accounted for on a straight-line basis over the term of the hedging relationship in the statement of income as costs of hedging and are recognised, until the hedge accounting relationship is settled, within other reserves. For more details reference is made to note 21. Other reserves.

Transition

Schiphol Group makes use of the option not to adjust comparative figures for the effects of IFRS 9 on the classification, measurement and impairment of financial assets and liabilities. IFRS 9 also entails no changes in comparative figures in connection with hedge accounting. There are minor changes in the carrying amounts of financial assets with effect from 1 January 2018 that are fully attributable to additional expected credit losses recognised. These changes are accounted for in the retained profits as at that date. Therefore, while the comparative figures as presented for 2017 comply with IAS 39 they do not necessarily also comply with IFRS 9.

IFRS 15

IFRS 15, Revenue from Contracts with Customers replaces the current IAS 11, Construction Contracts, IAS 18, Revenue Recognition and the Related Interpretations as from 1 January 2018 and is applied retrospectively from 1 January 2017. The basic principle of IFRS 15 is that an entity is required to recognise revenue when control of the good or service delivered transfers to the customer. Determining when control transfers from Schiphol Group to the customer requires judgment to be exercised by management. Most of the revenue of Schiphol Group is revenue from the provision of services. Based on an extensive analysis of material revenue streams, it has been determined that IFRS 15 entails no changes in the method of revenue recognition as applied until the end of 2016 under the previous standards. IFRS 15 therefore has no impact on results and equity.

Implementation of IFRS 15 gives rise to one minor reclassification within trade and other receivables in the consolidated statement of financial position. Included in the item accrued income is revenue from airport charges and concessions that is in fact as unconditional as trade receivables are. The only difference is that the invoice had not been issued yet. Under IFRS 15 Schiphol Group will present this accrued income as part of trade receivables. The composition of the trade and other receivables was adjusted to reflect this change per 31 December 2017 (for the amount of 28.2 million euros) and per 31 December 2018 (for the amount of 36.7 million euros). As such the comparative figures comply with both the old standards and IFRS 15.

Other standards

There are a number of other standards besides IFRS 9 and IFRS 15 that apply as from 1 January 2018:

- IFRS 2, Classification and Measurement of Share-Based Payment, amended (adopted by the European Union as of 26 February 2018);
- Amendments to IAS 40, Transfers of Investment Property (adopted by the European Union as of 14 March 2018);
- IFRIC 22, Foreign Currency Transactions and Advance Consideration (adopted by the European Union as of 28 March 2018);
- Amendments within the framework of the 2014-2016 Annual Improvements Project (adopted by the European Union as of 7 February 2018).

These standards have been determined to have no impact on the financial reporting of Schiphol Group.

New standards and amended standards that are mandatory with effect from 2019 or later

Schiphol Group has not voluntarily applied in advance new or amended standards or interpretations that will not be mandatory until the 2019 financial year or later.

IFRS 16

Schiphol Group finalised its examination of the consequences of IFRS 16, Leases, which is effective for financial years commencing on or after 1 January 2019. The standard replaces the current guidance in place for leasing, including IAS 17, Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases – Incentives and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 introduces one recognition model for lessees, based on the principle that all leases should be recognised on the balance sheet. The lessee needs to recognise an asset for the right to use the leased item and a financial liability for rental payments. Exceptions are available for short-term lease agreements and lease agreements of low-value items. Based on the examination mentioned above, it is concluded that the additional assets and lease liabilities that need to be recognised as per 1 January 2019 due to the implementation of IFRS 16 are not material. The accounting for lessors will not change as they will continue to classify leases as either finance or operating leases.

Schiphol Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. Schiphol Group plans not to apply the practical expedient to grandfather the definition of a lease on transition. This means that Schiphol Group will apply IFRS 16 to all contracts entered into before 1 January 2019 to assess whether contracts are, or contain, a lease.

Other standards

Schiphol Group is currently examining the consequences of other new standards and interpretations and amendments to existing standards listed below, which will be mandatory as from the 2019 financial year or later (as stated):

- Amendments to IFRS 9, Prepayment Features with Negative Compensation (adopted by the European Union as of 22 March 2018);
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement (issued on 7 February 2018);
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures (issued on 12 October 2018);
- IFRIC 23, Uncertainty over Income Tax Treatments (issued on 7 June 2017);
- Annual Improvements to IFRS 2015-2017 Cycle (issued on 12 December 2017).

It is expected that these will not have a significant impact on the consolidated financial statements.

Intangible assets

Intangible assets include goodwill, contract-related assets and software. Goodwill arising on the acquisition of subsidiaries is recognised under intangible assets. Goodwill arising on the acquisition of associates and joint ventures is recognised as part of the carrying amount of the associate and joint ventures, using the equity method. The initial carrying amount of goodwill is subsequently reduced by accumulated impairment losses. Goodwill is not amortised. Goodwill is allocated to the relevant cash-generating unit (subsidiary, joint venture or associate).

Contract-related assets concern the interest in JFKIAT acquired upon the acquisition of activities from third parties. These contracts are measured at fair value on the acquisition date and subsequently against the cost price thus determined less accumulated amortisation and impairment. Contract-related assets are amortised over the remaining contract period.

Software includes software licences and internally developed ICT applications. Internally developed software is capitalised at the cost of internal and external hours spent on the development and implementation phases of ICT projects as recorded on the time sheets. Time spent in the proposal and definition phases is not capitalised. Software is amortised on a straight-line basis over its useful life.

See note 8. Intangible assets for a more detailed explanation.

Assets used for operating activities

Assets used for operating activities include runways, taxiways, aprons, car parks, roads, buildings, installations and other assets. These assets are measured at historical cost less grants received, straight-line depreciation and impairments. Subsequent expenditure is capitalised to the carrying amount of these assets if it is probable that Schiphol Group will derive future economic benefits from them and the amount can be measured reliably.

Assets used for operating activities, with the exception of land, are depreciated on a straight-line basis over the useful life of the asset, which depends on its nature and components. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The net result on the disposal of assets used for operating activities is recognised in the income statement as other income.

Costs of day-to-day maintenance are recognised in the income statement and cost of planned major maintenance is capitalised.

See note 9. Assets used for operating activities for a more detailed explanation.

Assets under construction or development

All capital expenditure is initially recognised as assets under construction or development, if it is probable that the group will derive future economic benefits from them and the amount can be measured reliably. There are three categories of assets under construction or development:

- *(a)* software under development presented under Intangible assets;
- *(b)* assets under construction or development for operating activities presented under Assets under construction or development;
- *(c)* assets under construction or development for investment property presented under Investment property.

Software under development (category a) is measured at historical cost. Software under development is not amortised.

Assets under construction or development for operating activities (category b) are measured at historical cost including:

- borrowing costs. This relates to interest payable to third parties on borrowings attributable to projects. Borrowing costs are only capitalised for projects with a duration of at least one year;
- time charged at cost to capital projects by Schiphol Group employees during the construction stage.

Assets under construction or development for future operating activities are not depreciated. Impairment testing is performed as explained in the section 'Depreciation, amortisation and impairment'. When the assets are ready for use, they are transferred at historical cost less impairments to 'assets used for operating activities', which is also when the straight-line depreciation at the expense of the income statement commences.

Accounting policies for assets under construction or development for investment property (category c) are included under 'Investment property'.

See notes 8 and 10 for a more detailed numerical explanation.

Investment property

Investment property is measured at fair value. In order to prevent double counting the fair value of investment property as presented in the balance sheet takes into account granted lease incentives. These incentives are recognised separately as assets on the balance sheet under other non-current receivables (remaining term of more than 1 year) or trade and other receivables (remaining term of less than 1 year). Fair value gains and losses on investment property are recognised in the statement of income in the year in which they arise. Gains or losses on disposal of assets, i.e. differences between carrying amount and net selling price, are recognised in the income statement in the year the transaction is executed. Investment property is not depreciated.

Investment property under construction or development is measured at fair value provided that the fair value can be measured reliably. As long as this is not possible, the property is measured at historical cost until the moment that the fair value can be determined reliably. Any difference between fair value and historical cost is recognised in the income statement under 'other income and results from investment property'. On completion, the property is transferred at fair value to 'investment property'. Property purchased is initially measured at cost. Cost incurred after initial recognition is capitalised if it can be measured reliably and it is probable that future economic benefits will flow to Schiphol Group. Other expenditures are recognised immediately in the income statement.

All buildings in the portfolio are appraised twice a year by independent valuators (at 30 June and at 31 December). Land is appraised based on internal valuations and also by independent external valuators. Each year a different part of the land positions is appraised by independent external valuators. The market value of long-leased land is calculated by discounting the value of the future annual ground rents and the residual value under the contracts concerned (DCF method).

See note 11. Investment property for a more detailed explanation.

Depreciation, amortisation and impairment

Intangible assets and assets used for operating activities are amortised and depreciated on a straight-line basis according to the schedule below. Goodwill, investment property, assets under construction and land are not amortised or depreciated.

Intangible assets	
Contract-related assets	33 years
ICT development	3-5 years
Software licences	3-5 years

Assets used for operating activities	
Runways and taxiways	15-60 years
Aprons	30-60 years
Paved areas, roads etc.:	
- Car parks	30 years
- Roads	30 years
- Tunnels and viaducts	40 years
- Drainage systems	40 years
Buildings	20-60 years
Installations	5-30 years
Other assets	5-20 years

The book value of non-current assets is tested against the recoverable amount if there are indications of an impairment. The recoverable amount is the greater of an asset's net realisable value and its value in use. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs. Value in use is based on the present value of the estimated future cash flows from continuing use of an asset and from its disposal at the end of its useful life. This test is performed at cash-generating unit level, with Aviation and Consumer Products & Services treated as a single separate cash-generating unit. If the carrying amount exceeds the recoverable amount, the difference is recognised as an impairment loss in the statement of income and the carrying amount of the asset is reduced to the recoverable amount. Where applicable, the straight-line depreciation over the remaining useful life of the asset concerned is adjusted accordingly. If circumstances indicate the need to reverse an impairment loss, the carrying amount of the asset is increased to the recoverable amount. Impairment losses on goodwill purchased on the acquisition of subsidiaries and joint ventures are not reversed. An annual impairment test is carried out to identify any changes or events that could lead to an impairment of the goodwill.

See note 6. Depreciation, amortisation and impairment expenses for a more detailed explanation.

Investments in subsidiaries, associates and joint ventures

General

Where necessary, the accounting policies of subsidiaries, associates and joint ventures are adjusted to be in line with the Schiphol Group accounting policies.

See note 13. Investments in associates and joint ventures for a more detailed numerical explanation.

Subsidiaries

The financial information of Schiphol Group and its subsidiairies is included in the consolidated financial statements. Subsidiaries are companies that are controlled by Schiphol Group. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and is able to influence those returns through its control of the entity. The other shareholders' share in consolidated equity and results is presented in the balance sheet as non-controlling interests (part of equity) and in the income statement as profit after income tax attributable to non-controlling interests. The results of subsidiaries acquired are consolidated from the date on which control commences. The financial information relating to subsidiaries disposed continues to be included up to the date on which control ceases. In the event the company loses control of a subsidiary while retaining a financial interest, all assets and liabilities are deconsolidated and the remaining interest is initially recognised at fair value. The remaining difference is recognised in the income statement.

Associates

An associate is an entity over which the company has significant influence. Investments in associates are recognised using the equity method, meaning that the investment is initially recognised at cost and subsequently adjusted for the company's post-acquisition share in the change in the associate's net assets. The carrying amount of these investments in associates includes goodwill recognised at acquisition. The company's share in the results of associates over which it has significant influence is recognised in the statement of income (share in results of associates). Cumulative movements in the net assets of associates are recognised in proportion to Schiphol Group's interest as investments in associates. The company ceases to recognise its share in the results of an associate in the income statement and its share in the net asset value of that associate immediately if this were to lead to the carrying amount of the investment becoming negative and if the company has not entered into any commitments or made payments on behalf of the associate. Investments in associates are measured as other financial interests (at fair value with changes in fair value reported through the income statement) from the date on which the company ceases to have significant influence or control.

Joint arrangements

The financial data of entities that qualify as a joint arrangement are recognised as either joint ventures or joint operations, depending on the statutory and contractual rights and obligations of each individual investor. All existing contractual agreements qualify as joint ventures. Joint ventures are entities over which Schiphol Group and one or more other investors have joint control, and are accounted for using the equity method.

Acquisition of subsidiaries, associates and joint arrangements

An acquisition of a subsidiary, an associate or a joint arrangement is accounted for according to the purchase method, under which the cost of such an acquisition is the sum of the fair values of the assets and liabilities transferred by the acquirer on the acquisition date, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. For acquisitions of associates and joint ventures this also includes the related transaction costs. The identifiable assets, liabilities and contingent liabilities acquired are initially measured at their fair value at the acquisition date. The excess of the cost of the acquisition over the company's interest in the net fair value of the acquired assets and liabilities is recognised as goodwill in the consolidated financial statements under intangible assets (in the case of subsidiaries) or as part of the carrying amount in the case of associates and joint ventures. If the net fair value exceeds cost, the difference is recognised immediately in the income statement. Costs relating to an acquisition of a subsidiary are recognised directly in the income statement.

If the acquisition is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in the income statement.

When the group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or other financial interest. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if it directly disposed the related assets or liabilities. This can result in amounts previously recognised in other comprehensive income being reclassified to profit or loss.

Eliminations

Transactions between the company and its subsidiaries, associates and joint arrangements are eliminated, in the case of joint arrangements and associates in proportion to the company's interest in those entities, along with any unrealised gains and assets and liabilities arising. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Financial assets

The company classifies financial assets in the categories of amortised costs (loans to associates, trade receivables, cash and cash equivalents) and fair value - hedging instrument (derivative financial instruments). The classification is based on the business model and the cash flow characteristics of the financial asset.

Derivative financial instruments

In line with the company's financial risk management, derivative financial instruments are used to hedge the risk of changes in future cash flows connected with periodic interest payments and repayments of funding resulting from movements in market interest rates and exchange rates. The instruments used to hedge these risks are interest rate swaps and currency swaps. At inception of designated hedging relationships, the company documents the risk management objective and strategy for undertaking the hedge as well as the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Derivative financial instruments are measured at fair value. To the extent the hedging relationship is effective, fair value changes on derivative financial instruments are recognised in other comprehensive income and accumulated in the hedge reserve, which is part of equity. The non-effective part of fair value changes is recognised in the income statement. The cumulative amount recognised in the hedging transactions reserve is recycled to the income statement in the same period in which the hedged transaction is recognised in the income statement. In cash flow hedging relationships, only the change in fair value of the spot element of forward exchange contracts is designated as the hedging instrument. The change in fair value of the forward element is accounted for as a cost of hedging, the related costs of hedging reserve is part of the hedging transactions reserve.

If a hedging instrument expires, is sold, terminated or exercised or ceases to satisfy the hedge accounting criteria, hedge accounting is discontinued prospectively. The fair value gains and losses accumulated up to that date continue to be carried in the hedging transactions reserve for as long as the initially hedged transaction is considered to be likely to occur, and are subsequently recognised in the statement of income simultaneously with the realisation of the hedged cash flow. If the initially hedged transaction is no longer expected to occur, the amounts accumulated in the hedging reserve and the costs of hedging reserve are immediately reclassified to the income statement.

When hedge accounting is not applied, the results are immediately recognised in the income statement.

See note 29*.* Management of financial risks and financial instruments for a more detailed explanation.

Loans to associates

The objective of loans to associates is to collect contractual repayments and interest. Loans to associates are initially measured at the fair value of the loans less attributable transaction costs, and subsequently measured at amortised cost, with differences between the redemption value and the carrying amount being amortised over the remaining term to maturity using the effective interest method.

See note 14*.* Loans to associates for a more detailed explanation.

Trade and other receivables

The objective of trade and other receivables is to collect contractual repayments and interest. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairments. In view of the generally short period to maturity, the fair value and amortised costs of these items tend to be virtually identical to the face value.

See note *17.* Trade and other receivables for a more detailed explanation.

Cash and cash equivalents

The objective of cash and cash equivalents is to collect contractual repayments and interest. Cash and cash equivalents are measured at amortised cost, which is normally the nominal value. Cash and cash equivalents include all cash balances, deposits held at call at financial institutions, and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash. Liquid investments with an original maturity exceeding three months are excluded from cash and cash equivalents and reported under trade and other receivables. Bank overdrafts are included in the short-term payables.

See note *18.* Cash and cash equivalents for a more detailed explanation.

Expected credit losses

Expected credit losses on loans to associates and cash and cash equivalents are measured on the basis of possible situations and developments that may lead to a counterparty defaulting within a period of 12 months. However, if a significant change has occurred in the credit risk, expected credit losses are based on possible situations and developments during the expected total lifetime of the receivable that may lead to the associate or bank defaulting. A significant increase in the risk is deemed to have occurred if payment of repayment and/or interest is more than 30 days past due. The debtor is in default if payment is more than 90 days past due. Relevant information that is accessible without undue cost or effort is used to determine (twice a year) whether the credit risk has actually increased significantly and to measure expected credit losses. This includes both quantitative and qualitative information as well as historical and prospective information.

Schiphol Group opted to base its measurement of expected credit losses relating to trade receivables on all possible situations and developments that may lead to default of the debtor during the expected total lifetime of the receivable. This is primarily derived from a provisions matrix based on historical data on credit losses per business area. Additionally, the measurement of credit losses is based on information accessible without undue costs and effort about current developments and expectations with regard to the market and significant trading relationships. The provision covers 100% of the receivables owed by debtors that are in bankruptcy or have applied for a suspension of payments, as well as receivables older than one year.

Expected credit losses incurred are reported in the income statement as part of depreciation, amortisation and impairment.

Inventories

Inventories are measured at the lower of cost and net realisable value. The lower net realisable value is determined by an individual assessment of the inventories. Cost includes the purchasing costs of the product. The net realisable value is based on the expected selling price less selling costs to be incurred.

Assets and liabilities held for sale

Non-current assets or disposal groups comprising assets and liabilities are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. The sale is highly likely if, on the reporting date, management has committed to detailed sales plans, is actively looking for a buyer and has set a reasonable selling price and the sale is highly likely to occur within a year.

Such assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Once classified as held for sale, the non-current assets will no longer be depreciated.

Shareholders' equity

Issued share capital

The issued share capital is the amount paid up on the shares issued, up to their nominal value.

See note 19. Issued share capital and share premium for a more detailed explanation.

Share premium reserve

The share premium reserve is the amount paid up on the shares issued in excess of their nominal value.

Retained profits

Retained profits are the net results (i.e. that part of the result attributable to shareholders) accumulated in previous years minus distributed dividends.

See note 20. Retained profits for a more detailed numerical explanation.

Other reserves

Other reserves are the exchange differences reserve, the hedging transactions reserve, the share in other comprehensive income of associates reserve and the reserve for actuarial gains and losses.

The policies on the hedging transactions reserve and cost of hedging reserve are disclosed in 'derivative financial instruments'. The policies on the exchange differences reserve are disclosed under (c) in the policy on 'foreign currency'.

See note 21. Other reserves for a more detailed explanation.

Employee benefits

There are four categories of employee benefits:

- short-term employee benefits;
- post-employment benefits;
- other long-term employee benefits;
- termination benefits.

These categories are explained below, along with descriptions of the Schiphol Group employee benefits included in these categories.

Short-term employee benefits

Short-term employee benefits are benefits payable within a year of the end of the year in which the employee rendered the service. Within Schiphol Group, this category includes wages and salaries (including holiday pay) and fixed and variable allowances, social security contributions, paid sick leave, profit sharing and variable short-term remuneration. The costs of these employee benefits are recognised in the income statement when the service is rendered or the rights to benefits are accrued (e.g. holiday pay).

Post-employment benefits

These are employee benefits that may be due after completion of employment. They include pensions and job-related early retirement benefits. Schiphol Group's pension plan is administered by Algemeen Burgerlijk Pensioenfonds (ABP). The pension plan is regarded as a group scheme involving more than one employer that qualifies as a defined-contribution plan because:

- the members bear the actuarial and investment risks practically in full;
- the affiliated employers have no supplementary obligation to make additional contributions in the event of a deficit at ABP, nor are they entitled to any surpluses in addition to paying the premium set by ABP;
- each year the premium is set by the ABP board on the basis of its own file data, with due regard for the prescribed parameters and requirements.

Accordingly, in measuring the obligations arising from the pension plan, Schiphol Group merely recognises the pension contributions payable as an expense in the income statement.

The obligation covering job-related early retirement benefits is calculated according to actuarial principles and accounted for using the method described in 1, 2 and 3 below. In these cases, a net asset or liability is recognised in the balance sheet, comprising:

1. the present value of the defined-benefit obligation at the reporting date, measured using the projected unit credit method, under which the present value of the pension obligation for each member is determined on the basis of the number of active years of service prior to the reporting date, the estimated salary level at the expected date of retirement and the market interest rate;
2. less any past service cost not yet recognised. If, owing to changes in the pension plans, the expected obligation based on future salary levels with respect to prior years of service (past service costs) increases, the amount of the increase is recognised in full in the period in which the rights are granted;
3. less the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

Other long-term employee benefits

These are employee benefits which do not fall wholly due within a year of the end of the period in which the employees render the related service. At Schiphol Group, this includes amongst others supplementary disability benefits, long-service awards and sustainable employment budget.

The expected costs of supplementary disability benefits are recognised in full in the statement of income from the date on which an employee is declared partially unfit for work. The liabilities with respect to supplementary disability benefits, long-service awards and sustainable employment budget are measured at the present value of the obligation.

Termination benefits

These are employee benefits payable as a result of either a decision by Schiphol Group to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for such benefits. Benefits under the scheme supplementing the statutory amount of unemployment benefit are another example of termination benefits. The costs are recognised in full in the income statement as soon as such a decision is made. Termination benefits are recognised at the present value of the obligation.

See note 24. Employee benefits for a more detailed explanation.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured by discounting the expected future cash flows.

See note 25. Provisions for a more detailed explanation.

Leases

Classification

Assets where the company or one of its subsidiaries has beneficial ownership under a lease contract are classified as finance leases. The company, or a subsidiary, has beneficial ownership if substantially all the risks and rewards incidental to ownership are transferred to it. Leases where beneficial ownership of the asset remains with third parties are classified as operating leases. Whether a lease is a finance lease or an operating lease depends on the economic reality (substance of the transaction rather than the form of the contract).

Schiphol Group as lessee in a finance lease

These assets are measured as either assets used for operating activities or investment property. The borrowings associated with such lease contracts are accounted for as lease liabilities. The related assets and liabilities are initially measured at the lower of the fair value of the leased assets and the present value of the minimum lease payments at the inception of the lease. The assets are depreciated, using a method consistent with that used for identical assets owned by the company. The depreciation period may be shorter if the lease term is shorter, if it cannot be extended and if ownership will not be obtained. The lease payments are divided between the finance charge and the reduction of the outstanding liability to present a periodic effective rate of interest on the remaining balance.

Schiphol Group as lessee in an operating lease

As regards leases where beneficial ownership is held by a third party, only the lease payments are recognised in equal instalments, allowing for lease incentives, as expenses in the income statement. In the case of prepaid ground leases, the amount paid is recorded as a lease asset in the balance sheet and recognised as an expense in the income statement on a straight-line basis over the lease term.

Schiphol Group as lessor in a finance lease

Assets subject to a finance lease are measured in the balance sheet as a lease receivable at the present value of the minimum lease payments receivable at the inception of the lease. The lease payments receivable are apportioned between the finance income and the reduction of the outstanding receivable so as to present a periodic effective rate of interest on the remaining balance.

Schiphol Group as lessor in an operating lease

Assets subject to an operating lease are recognised in the balance sheet and measured according to the type of asset. The lease payments receivable under such leases are recognised as income in equal instalments, allowing for lease incentives, in the income statement. In the case of prepaid ground rents, the prepaid amounts received are recorded as a lease liability in the balance sheet and recognised as income in the income statement on a straight-line basis over the lease term.

Financial liabilities

The company classifies financial liabilities in the categories of amortised cost (borrowings, trade payables and interest payable) and designated at fair value through profit and loss (borrowings).

Borrowings

This item relates to bonds, private placements and amounts owed to credit institutions. Borrowings are initially measured at fair value less attributable transaction costs, and subsequently measured at amortised cost, with differences between the redemption value and carrying amount being amortised over the remaining term to maturity using the effective interest method.

One borrowing concerns a profit sharing loan based on fair values of a specific real estate portfolio. The cash flows are determined on the basis of the expected value on the expiration date. The expected value is based on the valuation by external appraisers. To prevent inconsistency between the accounting for changes in the value of the loan on the one hand and the related real estate portfolio on the other, this borrowing is designated at fair value through profit and loss.

Borrowings expected to be repaid within a year of the reporting date are presented as current liabilities.

See note 23. Borrowings for a more detailed explanation.

Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost. In view of the generally short period to maturity, the fair value and amortised costs of these items tend to be virtually identical to the nominal value.

Liabilities from municipal taxes such as certain types of property taxes are recognised at the obligating event.

See note 27. Trade and other payables for a more detailed explanation.

Revenue

Nearly all of Schiphol Group's activities comprise the provision of services. The Group recognises revenue when it transfers control over a service to the customer. Revenue is either measured based on the consideration consulted and set according to the Aviation Act (airport charges), specified in a contract with the customer (e.g. concessions, rent and leases) or based on rates published publically (e.g. parking fees). Each of the charges and rates relates to distinct services and does not contain financing components.

Revenues from the handling of flights, aircraft, passengers and baggage and from the provision of parking space (reported as airport charges and parking fees) qualify as revenue from contracts with customers. The airport charges are recognised at a point in time and parking fees are recognised over time. Revenue from the granting of concessions and letting of investment property and retail space qualifies as revenue from leases and is recognised on a straight-line basis over the contract period.

Total revenue represents the income from the services provided less discounts and tax (VAT and excise duty). Revenue equals total revenue less the revenue from intra-group transactions.

As regards the main activities of Schiphol Group, revenue is recognised as follows:

Airport charges

Revenue from airport charges consists of passenger service charges, security service charges, aircraft-related fees and aircraft parking fees. Revenue is recognised at a point in time. Given this method of revenue recognition, there are no performance obligations with regard to the revenues from airport charges as at the balance sheet date. Airport charges are invoiced on a weekly basis and the standard, contractual payment term is three weeks.

The activities of the Aviation business area (at Amsterdam Airport Schiphol) are regulated. This means that the process of setting the airport charge rates is subject to supervision by the Dutch Authority for Consumers and Markets (ACM) and that the aviation sector must be consulted as part of this process, which takes place every three years to set the tariffs for a three-year period. When setting the aviation charges, the Aviation business area's profitability is capped at an average weighted cost of capital for regulated assets; both the asset base and the cost of capital must be determined in compliance with the Aviation Act.

In submitting its proposal, the operator provides the users with a statement of the level of service to be provided as measured by the indicators stipulated in the Amsterdam Airport Schiphol Operation Decree. The charges for all of the airport activities should be transparent. This also applies to the revenue from activities that are directly associated with the aviation activities at the airport which are factored into the charges. For this purpose, the operator is required to keep separate accounts for the airport activities, including subaccounts for the costs of security relating to passengers and their baggage and the revenue generated by security charges. For the income and expenses of these activities, the operator has implemented an industry-standard allocation system that is proportionate and comprehensive.

Under the Aviation Act, Schiphol Group must settle surpluses and deficits from specified income and expenses with the industry. Settlement takes place after the respective financial year and preparation of the financial statements of the Aviation and Security reporting segments, in accordance with the Aviation Act and the applicable new airport charge rates. Surpluses and deficits eligible for settlement in the airport charge rates are not presented as assets and liabilities in the balance sheet.

As the regional airports are not regulated up to the five million passenger limit, the above regulatory procedures do not apply to the 2018 airport charges of Rotterdam The Hague Airport, Eindhoven Airport and Lelystad Airport, which are accounted for in the Domestic Airports reporting segment. However, as Eindhoven Airport has now reached this limit, the tariffs of this airport will be regulated as of 2019.

Concessions

A concession grants the holder non-exclusive rights to operate and manage a commercial activity in a specific location designated by Schiphol Group. Concession income qualifies as variable lease payments, since it depends on predetermined percentage scales which are linked to the revenues of the concession holder. Concession income is recognised on a straight-line basis where the scales set are linked to the annual sales of the concession holder in the financial year. When the revenue period specified in a contract is different from Schiphol's financial year, an estimate of the expected revenue and scale will be made and recognised. In these instances, revenue is also recognised on a straight-line basis. Concessions are invoiced on a monthly basis and the standard, contractual payment term is two weeks.

Rent and leases

Income from rent and leases relates to the letting of investment property and retail space, as in general, next to the concession agreement, a separate contract is entered into with concession holders in which a fixed rent is payable for the retail space rented by the concession holder. Income from rent and leases is recognised as revenue in the income statement on a straight-line basis over the contract term of the agreement. Rent and leases are invoiced in advance, mostly on a quarterly basis, and the standard, contractual payment term is two weeks.

Rent holidays, discounts on rent and other lease incentives are recognised as an integral part of the gross rental revenues. Service charges relate to the costs of energy, concierges and maintenance which may be charged to the tenant under the lease. The part of the service costs allocated to property investments which have not been let is recognised as an expense in the income statement.

Parking fees

Parking fees are recognised over time, in proportion to the service supplied at the reporting date. Parking revenues are for the most part collected immediately after the service has ended. A smaller part is collected at the moment the service is reserved ahead online. Revenues from business parking are invoiced on a monthly basis and the standard, contractual payment term is two weeks. As a consequence of the above, with regard to the majority of revenues from parking fees, there are no performance obligations as at the balance sheet date.

Other activities

Revenue from other activities mainly consists of revenue from advertising, transport of electricity, gas and water, telecommunication services and other services and activities on behalf of third parties. Most of this revenue qualifies as revenue from contracts with customers and is recognised over time, in proportion to the service supplied at the reporting date.

See note 1. Revenue for a more detailed explanation.

Financial income and expenses

Interest income and expense is recognised over time on a basis that takes into account the effective yield on the loans granted or liabilities. Dividends are recognised when Schiphol Group's right to receive payment is established.

See note 29. Management of financial risks and financial instruments for a more detailed explanation.

Income taxes

'Income taxes' comprises current tax payable and deferred tax. Income taxes are recognised in the income statement unless they relate to items credited or charged directly to equity or other comprehensive income, in which case the tax is charged or credited directly to equity or other comprehensive income as well.

Current tax payable or receivable

Current tax payable or receivable in respect of the reporting period is the tax that is expected to be paid on the taxable profit for the reporting period and adjustments to the tax payable for prior periods. The tax payable or receivable is computed on the basis of tax rates and laws enacted or substantially enacted at the reporting date. Income taxes include all taxes based on taxable profits and losses including non-deductible taxes payable by subsidiaries, associates or joint ventures. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amount of assets and liabilities according to tax legislation and the accounting policies used in preparing these financial statements. Deferred tax assets, including those arising from tax loss carry-forwards, are recognised if it is probable that there will be sufficient future taxable profits against which tax losses can be offset, allowing the assets to be utilised.

No deferred tax assets or liabilities are recognised for:

1. temporary differences resulting from transactions that do not qualify as a business combination and that affect neither the result for reporting purposes nor the result for tax purposes at the time of the transaction; and
2. temporary differences associated with investments in subsidiaries, associates, joint ventures and contract-related intangible assets to the extent that Schiphol Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future; and
3. taxable temporary differences arising on the initial recognition of goodwill.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Existing deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

The carrying amounts of deferred tax assets and liabilities are calculated at the tax rates expected to be applicable to the period in which an asset is realised or a liability is settled, using the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are netted if they relate to the same fiscal unity and the company at the head of this fiscal unity has a legally enforceable right to do so.

See note 12. Income taxes for a more detailed explanation.

Foreign currency

Functional currency and presentation currency

Since the primary economic environment of Schiphol Group is the Netherlands, the euro is both its functional currency and presentation currency. Financial information is presented in thousands of euros, except where otherwise stated.

Transactions, assets and liabilities

Transactions (capital expenditure, income and expenses) denominated in foreign currencies are accounted for at the exchange rate on the transaction date. Monetary assets and liabilities (receivables, payables and cash and cash equivalents) in foreign currencies are translated at the exchange rate on the reporting date. Exchange differences arising on translation and settlement of these items are recognised in the statement of income under financial income and expenses, with the exception of exchange differences on financial instruments in foreign currencies against which derivative financial instruments are held with the object of hedging exchange risks on future cash flows. Exchange differences on these financial instruments are recognised directly in comprehensive income provided the hedge is determined to be effective. The ineffective portion is recognised in the income statement under financial income and expenses.

Subsidiaries

Income and expenses denominated in foreign currencies are translated at the exchange rate on the transaction date, which in practice is usually approximated using an average exchange rate. Assets and liabilities are translated at the rate on the reporting date. Goodwill and changes in fair value arising on the acquisition of investments in associates are treated as assets and liabilities of the entity concerned and are similarly translated at the rate on the reporting date. Exchange differences arising on the translation of balance sheets and income statements of subsidiaries outside the euro zone are recognised directly in equity under the exchange differences reserve. On disposal of subsidiaries outside the euro zone, the accumulated translation differences initially recognised in the exchange differences reserve are recognised in the income statement as part of the result on disposal.

Cash flow statement

The cash flow statement is prepared using the indirect method. Cash and cash equivalents within the cash flow statement consist of all cash balances, deposits held at call at financial institutions, and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash. Liquid investments with an original maturity exceeding three months are reported under trade and other receivables. Given the purpose of these investments (to finance capital expenditure in the short term) the movements in these investments are not reported as part of movement in working capital but as part of cash flow from investing activities.

Cash flows from short-term credit facilities are classified as cash flows from financing activities. Cash flows in foreign currencies are translated at an estimated average rate. Currency differences on cash and cash equivalents are separately disclosed. Income tax, interest received and interest paid, and dividends received are classified as cash flows from operating activities. Paid dividends are classified as cash flows from financing activities.

The acquisition of a group company or subsidiary is classified as a cash flow from investing activities for the part that was paid in cash. Available cash and cash equivalents within the acquired company or subsidiary are eliminated. This also applies in the case of the sale of a group company.

Non-cash transactions are not included in the cash flow statement. Payments of lease instalments under a financial lease contract are classified as cash flows from financing activities as regards the part relating to redemption and as cash flows from operating activities as regards the part relating to interest.

See the Consolidated statement of cash flow for the year ended 31 December 2018 for a more detailed explanation.

Critical judgements and estimates

The assumptions and estimates made in the financial statements often concern expected future developments. Since the actual developments may deviate from the assumptions used, the actual outcomes may significantly differ from the current measurements of a number of items in the financial statements. As a result, the assumptions and estimates used may significantly influence Schiphol Group's equity and results. Assumptions and estimates used are tested periodically and adjusted where necessary. To a significant degree, these assumptions and estimates are based on past experience and on Schiphol Group's management's best estimate of specific circumstances which – in the management's view – apply in the given context. This section discusses the principal areas where the measurement of items is strongly influenced by the assumptions and estimates used.

Useful life, residual value and impairment of property, plant and equipment

The carrying value of property, plant and equipment is calculated on the basis of estimates of depreciation periods derived from the expected technical and useful life of the asset concerned, and residual values. The expected technical and useful life of the asset concerned and its estimated residual value may change under the influence of technological developments, market circumstances and changes in the use of the asset. These factors may also give rise to the need to recognise an impairment on assets.

Determining the fair value of investment property and land positions

The fair value of buildings recognised under investment property is appraised twice a year by management through the deployment of independent external valuators. The fair value of land recognised under investment property is appraised primarily on the basis of internal valuations. In addition each year a different part of the land positions is appraised by independent external valuators. The best evidence of fair value are current prices in an active market for similar investment property. In the absence of such information, Schiphol Group determines the amount within a range of reasonable fair value estimates. The underlying assumptions of these estimates are explained in more detail in the accounting policies on investment property and in note 11. Investment property.

Impairment of goodwill and non-current assets

Goodwill is not amortised, but an annual impairment test is carried out to identify if there are any changes or events that could lead to an impairment of the goodwill. Other assets are tested in the case of any events or changes that call for an impairment test.

Capitalisation and allocation of costs to specific assets

All capital expenditures are initially recognised under assets under construction if they are expected to generate future economic benefits. A distinction is made between operating activities and investment property. Asset used for operating activities can be subdivided into the following categories:
- runways, taxiways and aprons;
- paved areas and roads;
- buildings;
- installations;
- other non-current assets.

Taxes

When preparing the financial statements, Schiphol Group makes every effort to assess all relevant tax risks and process up-to-date tax position details in the financial statements to the best of its ability. Evolving insights, for example following final tax assessments for prior years, can result in additional tax burdens or benefits, and new tax risks may arise. In the valuation of deferred tax assets, particularly those concerning differences between the values of property, plant and equipment for reporting and tax purposes in the financial statements, assumptions are made regarding the extent to which and the period within which such assets can be realised. This is done, for instance, on the basis of business plans. In addition, when preparing the financial statements assumptions are made regarding temporary and permanent differences between the values for reporting and tax purposes. The actual situation may deviate from the assumptions used to determine deferred tax positions, due for instance to diverging insights and changes in tax laws and regulations. See 12. Income taxes for a more detailed explanation.

The management programme for these tax risks (also known as the 'tax control framework') is part of Schiphol Group's overall risk management programme. This programme serves to identify tax risks and monitor internal control with the aim of mitigating the tax risks. Schiphol Group has also developed and implemented a tax planning framework. Tax risk management is facilitated by the central control department (Group Control) and is part of approved Management Board policy. This policy is based on Schiphol Group's aim to be a trustworthy taxpayer through the application of professional tax compliance procedures.

Provisions

Schiphol Group uses estimates and assumptions when determining the likelihood that an obligation per balance sheet date will lead to an outflow of resources. In addition to this, assumptions are applicable to the estimated amount of outflow of resources. For example, Schiphol recognised an environmental provision related to soil pollution for construction projects for which soil has been excavated. Since there is no technical solution available for decontaminating the polluted soil, the excavated soil is temporarily stored at the airport until the market has developed a decontamination solution. Schiphol has made an estimation of the expected expenditures related to the decontamination. For a more detailed explanation, refer to note 25. Provisions.