## 11. Investment property

| (in thousands of euros) | Buildings | Land | Assets under construction | Total |
|---|---|---|---|---|
| **Carrying amount as at 1 January 2017** | **982,546** | **387,664** | **83,272** | **1,453,482** |
| | | | | |
| **Movements in 2017** | | | | |
| Capital expenditure | - | - | 16,192 | 16,192 |
| Capitalised construction borrowing cost | - | - | 86 | 86 |
| Completions | 5,713 | 332 | -6,045 | - |
| Fair value gains and losses | 21,247 | 15,250 | 5,980 | 42,477 |
| Reclassification | -385 | -2,360 | -5,813 | -8,558 |
| Other | - | - | 65 | 65 |
| **Total movements in the year** | **26,575** | **13,222** | **10,465** | **50,262** |
| | | | | |
| **Carrying amount as at 31 December 2017** | **1,009,121** | **400,886** | **93,737** | **1,503,744** |
| | | | | |
| **Movements in 2018** | | | | |
| Capital expenditure | - | - | 33,777 | 33,777 |
| Capitalised construction borrowing cost | - | - | 457 | 457 |
| Completions | 14,862 | 5,331 | -20,193 | - |
| Fair value gains and losses | 64,389 | 37,529 | 3,666 | 105,584 |
| Impairments | - | - | -1,000 | -1,000 |
| Impairment reversal | - | - | 3,300 | 3,300 |
| Reclassification | 9,241 | -7,642 | -5,202 | -3,604 |
| Other | - | - | 27 | 27 |
| **Total movements in the year** | **88,492** | **35,218** | **14,832** | **138,541** |
| | | | | |
| **Carrying amount as at 31 December 2018** | **1,097,612** | **436,104** | **108,569** | **1,642,285** |
| | | | | |
| **Measured at** | | | | |
| Cost model | - | - | 46,433 | 46,433 |
| Fair value model | 1,097,612 | 436,104 | 62,136 | 1,595,852 |

### Investment property under construction

Assets under construction for the development of investment properties are measured at fair value if the value can be measured reliably. The investment property under construction includes land positions held for future investment property development or land with undetermined future use (operational or commercial development). Since the development plans are subject to annual changes, they are inadequate to determine the fair value on a continuing basis. For this reason, the land positions are measured in accordance with the cost model.

### Buildings and land

All building and land properties are measured at fair value. The fair value is based on the market value being the estimated amount for which investment property can be sold on the valuation date between a buyer and a seller willing to do business in an objective, arm's length transaction. The calculation of the cash flows, which is a factor in determining the fair value at which investment property is stated in the balance sheet, takes into account the lease incentives granted. After all, the lease incentives are recognised separately as assets on the balance sheet under other non-current receivables (12.9 million euros as at 31 December 2018) and trade and other receivables (3.6 million euros as at 31 December 2018).

As at 31 December 2018, 100% of the buildings and 15.9% of the land is appraised by independent external appraisers. The remaining fair value of land is based on internal valuations with reference to externally validated input variables.

Buildings include an amount of 159 million euros (31 December 2017: 145 million euros) in respect of the fair value of assets (The Base) where the company has the risks and rewards incidental to ownership but no legal title (finance lease). Land includes land leased under long-lease contracts.

Details of the result on property sales and fair value gains and losses on investment property can be found in note 2. Other results from investment property.

All investment property classifies as a level 3 valuation. In October 2015 the Dutch Register of Real Estate Valuers (Nederlands Register Vastgoed Taxateurs (NRVT)) was established, tasked with safeguarding and enhancing the quality of appraisers. The general behaviour and professional rules and regulations of the NRVT are the new market standard with which appraisers have to comply. These standards are based on IFRS and international valuation guidelines. All our external appraisers are NRVT members.

The valuation method is described in more detail below.

## Valuation method for buildings

The valuation method used is a combination of the net initial yield (NIY) method and the discounted cash flow method (DCF). The NIY method uses a net market rent which is capitalised with a NIY and is adjusted for all elements that differ from the market assumptions. The NIY is determined on the basis of comparable market transactions supplemented with market and object-specific knowledge. Deviating assumptions include contractual rent, vacancy information, deferred maintenance and rent holidays. The DCF method estimated net cash flows are discounted at a risk-adjusted discount rate which includes specific object and location assumptions.

| | Average effective contractual rental income per m2 | | Average market rent per m2 | | Average net initial yield | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **Schiphol-Centre** | | | | | | |
| Offices | **303** | 284 | **288** | 286 | **4.70%** | 5.35% |
| Business premises | **n/a** | n/a | **n/a** | n/a | **n/a** | n/a |
| **Schiphol-North and East** | | | | | | |
| Offices | **159** | 135 | **157** | 159 | **7.62%** | 7.75% |
| Business premises | **n/a** | 115 | **n/a** | 101 | **n/a** | 6.80% |
| **Schiphol-Southeast** | | | | | | |
| Offices | **139** | 84 | **143** | 167 | **9.38%** | 10.00% |
| Business premises | **127** | 125 | **105** | 110 | **5.16%** | 6.58% |
| **Schiphol-South** | | | | | | |
| Offices | **167** | 158 | **126** | 156 | **n/a** | 6.75% |
| Business premises | **97** | 92 | **76** | 84 | **6.94%** | 6.49% |
| **Rotterdam The Hague Airport** | | | | | | |
| Offices | **144** | 196 | **160** | 178 | **6.47%** | 7.05% |
| Business premises | **91** | 90 | **75** | 94 | **6.16%** | 7.04% |

## Significant assumptions for buildings

The significant assumptions used in the valuation model comprise:

### Buildings

| | 2018 | 2017 |
|---|---|---|
| Inflation rate | **1.85% - 2.01%** | 1.30% - 2.00% |
| Average market rent development | **0.00% - 1.80%** | 0.00% - 1.85% |
| Net initial yield | **4.30% - 9.38%** | 4.30% - 10.10% |

## Relationship between significant unobservable input and fair value determination

The estimated fair value will increase (decrease) to the extent that the expected market rent growth is higher (lower), the periods of vacancy are shorter (longer), the occupancy rate is higher (lower), the rent holidays are shorter (longer) and the NIY is lower (higher) than assumed.

## Valuation method for land

For land positions that generate revenues through ground rent, the valuation technique used is the DCF method. The estimated net cash flows are discounted with a risk-adjusted rate plus risk surcharges.

Land positions that are leased out for long periods and whose instalments are prepaid are measured at the prepaid installment minus an annual redemption. The annual redemption is equal to the total installment divided by the lease period plus the discounted value of the estimated installment for the next lease period.

## Significant assumptions used in the valuation model for land

The main assumptions used in the valuation of land are specified below:

### Land

| | 2018 | 2017 |
|---|---|---|
| Inflation rate | **1.60% - 2.00%** | 1.30% - 2.00% |
| Discount rate | **4.75% - 7.75%** | 6.35% - 7.85% |

## 12. Income taxes

This note contains further details on all items in the financial statements with regard to income tax, being income tax recognised in the statement of income, deferred taxes recognised in the statement of financial position, current tax positions in the statement of financial position and income tax recognised in equity.

### Reconciliation of effective tax rate

| (in thousands of euros) | 2018 | | 2017 | |
|---|---|---|---|---|
| Profit before tax | **375,373** | | 345,817 | |
| **Income tax calculated at the domestic tax rate** | **93,843** | **25.0%** | 86,454 | 25.0% |
| Share of profit of associates | **-24,353** | **-6.5%** | -18,192 | -5.3% |
| Share of profit of associates in limited partnerships that are not independently taxable | **1,387** | **0.4%** | 430 | 0.1% |
| Decrease corporate income tax rate | **17,332** | **4.7%** | -4,827 | -1.4% |
| Participation exemption on disposal of subsidiaries | **-** | **0.0%** | -1,653 | -0.5% |
| Participation exemption on performance shares | **-** | **0.0%** | -3,085 | -0.9% |
| Different rate for foreign subsidiaries / associates | **605** | **0.2%** | 1,612 | 0.5% |
| Tax losses for which no deferred tax asset has been recognised | **-** | **0.0%** | -189 | -0.1% |
| Change in recognised temporary differences | **98** | **0.0%** | - | 0.0% |
| Tax results previous years | **1,172** | **0.3%** | -356 | -0.1% |
| Other | **-85** | **0.0%** | 83 | 0.0% |
| **Income tax expense in income statement (effective)** | **89,999** | **24.0%** | **60,277** | **17.4%** |

The effective tax rate in 2018 was 24.0%, up 6.6 percentage points from 2017 (17.4%). The increase in the effective tax rate in 2018 is caused by the one-off tax expense triggered by the step-by-step reduction of the nominal income tax rate from 25% in 2019 to 20.5% in 2021 as part of the *Belastingplan 2019*, for which the underlying legislation was approved by the House of Representatives and the Senate in December 2018. The reduction of the nominal income tax rate triggered a recalculation of deferred tax assets and liabilities which resulted in a one-off tax charge of 17 million euros. As was the case in prior years, the application of the participation exemption to the results of associates results in a decrease of the effective tax rate.

Besides this in 2017 the effective income tax rate was below nominal due to the exempted one-off effect of the sale of Schiphol Hotel Holding B.V., the exempted result on performance shares and a decline per 1 January 2018 of the income tax rate in the United States by approximately 10%, which has a positive impact on the deferred tax liability.

There are no unused tax losses as per balance sheet date.

### Income tax in the statement of income

| (in thousands of euros) | 2018 | 2017 |
|---|---|---|
| **Current income tax** | | |
| Income tax current year | **46,834** | 50,745 |
| Adjustment for prior years | **1,172** | -356 |
| **Total current income tax** | **48,006** | **50,389** |
| **Deferred income tax** | | |
| Origination and reversal of temporary differences | **24,661** | 14,715 |
| Decrease corporate income tax rate | **17,332** | -4,827 |
| **Total deferred income tax** | **41,993** | **9,888** |
| **Total income tax** | **89,999** | **60,277** |