

Schiphol Group
Annual Report
2012



Risk management

Given its socio-economic function and entrepreneurial business operations, Schiphol Group is exposed to strategic, operational, financial and compliance risks. A uniform policy has been developed for controlling these risks. Risk management is an integral part of our business operations.

Our risk management policy is based on the following philosophy:

- The Management Board and management are responsible for developing and testing risk management and internal control systems. These systems have been designed to identify significant risks, monitor the realisation of objectives and ensure compliance with relevant laws and regulations;
- Adequate risk management and internal control systems reduce the likelihood of errors, wrong decisions and surprises due to unforeseen circumstances;
- Risk management is integrated in the line management activities and planning and control cycle;
- A healthy business must take risks. The Management Board bears ultimate responsibility for determining the maximum acceptable level of risk ('risk tolerance').

The management has identified the risks that may affect the achievement of Schiphol Group's objectives as thoroughly as possible. In a number of meetings of the Management Board and the Supervisory Board during 2012, the list of main risks was reassessed. On the basis of this reassessment, the management has reduced the list to ten main risks.

The developments during the global financial and economic crisis have made it clear that risks can occur simultaneously and can also be mutually reinforcing. Schiphol Group is attentive to this multiplier effect. Our risk management system is designed to reduce the adverse effects of the individual risks at an early stage.

Schiphol Group is, to a greater or lesser extent, dependent on what happens within and outside the aviation sector. By making these dependencies transparent, we gain better insight into the risks that are transferred within the chain. This enables us to anticipate chain reactions at an early stage.

Sensitivity analysis

Schiphol Group has carried out a sensitivity analysis for a number of important value drivers and the main risks that impact these drivers.

Risk	Value	Starting value		Change	Effect	Impact on	Assumptions
		2012					
A, B	Number of passengers Schiphol	51.0 million		+/- 1%	10.4 million euros	Total revenue	Impact on income from airport charges and shop and catering revenues: OD/transfer passengers ratio, spending per passenger and costs remain constant
A, B, H	Number of flights	423,407		No flights for 1 day	2.9 million euros	Total revenue	Based on average airport charges and spending at the terminal
A, B, D	Airport charges revenues	788 million euros		+/- 1%	7.9 million euros	Total revenue	
A, B	Average spending per departing passenger	16.69 euros		+/- 1%	1.0 million euros	Total revenue	Unchanged passenger numbers
E, H	Operating costs	1,013 million euros		+/- 1%	10.1 million euros	Operating result	Starting value relates to total operating costs, excluding impairments
C	Net initial return (NIR) on offices and buildings excluding land	%		- 10% + 10%	83 million euros 69 million euros	Property value	A 10% increase or decrease of the NIR (end of 2012) relating to property, applied to the value of the current real property portfolio of 758 million euros

Risk tolerance

Taking risks is inherent to doing business. The extent to which Schiphol is prepared to tolerate these risks in striving to achieve its objectives varies by objective and by risk category. The fact that Schiphol combines a socio-economic function with entrepreneurial business operations also plays a role in this respect.

Risk tolerance is determined by means of risk limits and corresponding bandwidths applying to the different business activities as specified in various policy documents, manuals and company regulations. Increasing attention is being paid to the possible concurrence and accumulation of different risks.

Risk category	Risk tolerance	Explanation
Strategic	Moderate	Schiphol is prepared to tolerate moderate risks in striving to achieve its objectives. It seeks to create a balance between its socio-economic function (low risk tolerance) and its commercial ambitions (higher risk tolerance).
Operational	Very low	Schiphol mainly focuses on maintaining the continuity of the aviation activities, regardless of the circumstances. We strive to minimise the risks that could jeopardise this continuity. Our risk tolerance in this respect is very low. In the field of safety and security, we do our utmost to avoid risks that could endanger passengers, employees, visitors and local residents.
Financial	Low	We maintain a solid financial position to ensure access to financial markets. Schiphol is not prepared to tolerate risks that jeopardise our credit rating of at least A (Standard & Poor's).
Compliance	Zero	Schiphol strives to comply with all applicable laws and regulations. We pay particular attention to laws and regulations relating to safety and security.

Risk management and internal control

We aim to reduce the possibility of errors, wrong decisions and surprises due to unforeseen circumstances as much as possible. Comprehensiveness in this respect cannot be guaranteed. It can never be ruled out that we may be exposed to risks of which we are currently unaware, or which may not, or not yet, be considered important at this time. Furthermore, no risk management or internal control system can provide an absolute safeguard against failure to achieve corporate objectives, or against full prevention of any possible loss, fraud or breach of rules and regulations. To name one example, Schiphol is particularly susceptible to adverse weather conditions and other natural phenomena. Although we cannot prevent or influence such phenomena, we can ensure that their effects are kept to a minimum.

To ensure effective risk management and internal control, we use a range of coordinated instruments. Our risk management system identifies, analyses and monitors strategic, operational, financial and compliance-related risks. The line managers, who are responsible for the implementation of risk management, report on this topic twice a year to their immediate director, who in turn reports to the Risk Committee.

The Management Board reports on and accounts for the risk management and internal control system to the Supervisory Board, following discussion in the Supervisory Board's Audit Committee.

In light of the above, we believe that the risk management and internal control systems provide a reasonable degree of assurance concerning financial reporting risks, and that the financial reporting does not contain any material misstatements.

The Management Board declares that to its knowledge,

- the financial statements give a true and fair view of the financial assets, liabilities, financial position and profits of Schiphol Group as well as the combined consolidated enterprises;
- the Annual Report gives a true and fair view of the situation on the balance sheet date and of developments over the course of the financial year; and
- the key risks facing Schiphol Group are described in this Annual Report.

Main risks

The ten main risks have been classified into four categories in accordance with the COSO-ERM directives:

- Strategic
- Operational
- Financial
- Compliance

Strategic risks

A > Demand fluctuations

The risk of unexpected fluctuations in demand, in our case, the number of air transport movements, the number of passengers and cargo volumes in particular, can result in a shortage or a surplus of capacity. This also has an effect on profitability, which in such cases increases or decreases to the same degree.

The continuing economic crisis that may lead to a decrease in the number of passengers, lower spending per passenger, a reduction of capacity at airlines and a change in the dynamics of the sector, forms a major threat. Other developments that may have an effect are those in the area of politics, laws and regulations, technology and competition. Schiphol is sensitive to changes in demand, in particular due to its dependence on a limited number of large customers.

Control measures

- Short-term and long-term scenario-based planning
- Monitoring of external trends and developments
- Improved flexibility as a result of the outsourcing of activities
- A modular investment plan

B > Competition

Insufficient investment in quality and capacity may result in the inability to ensure a healthy competitive position. Especially in the area of transfer traffic, competition from other major hubs in Europe and the Middle East that are making substantial investments in infrastructure and quality improvement, has increased. We are also facing greater competition in our catchment area in terms of OD traffic. Our non-aviation activities, such as parking, retail and real estate, are experiencing competition from parties in Schiphol's immediate environment.

Control measures

- Timely investment in infrastructure in close consultation with airlines
- Carrying out competition analyses
- Client Relationship Management
- Airline Reward Programme and marketing activities
- Expanding the range of shops, products and facilities

C > Market developments in real estate

Changing market conditions can lead to lower occupancy of the property portfolio and lower rents resulting in fair value losses. This risk is increased by the high concentration of property for the aviation sector and our dependence on a number of large customers.

Control measures

- Monitoring of market conditions and current prospects.
- Semi-annual assessments of the property portfolio, each time performed by different appraisers
- Developing projects only on the basis of minimum pre-sale requirements
- Maintaining the appeal of the location and the portfolio by means of timely renovations and redevelopment

D > Economic regulation

Our aviation activities are subject to economic regulation, which means that our return on investment is capped. As a consequence of placing too much emphasis on a lower level of cost, for example in the evaluation of the Aviation Act, investments in capacity and quality may be structurally lower, which will have a negative effect on the competitive position and service level of Mainport Schiphol.

Control measures

- Modular investment plans
- Regular contact with Dutch Competition Authority NMa
- Participating in discussions with the government on regulation

E > Changing laws and regulations

Political developments and changes in standpoints and European or national laws and regulations can have a major impact on our business. Examples include the sale of consumer products at the airport and changes in laws and regulations in the field of security that could lead to major operational adjustments and higher security costs.

Control measures

- Participation in various consultative bodies
- Ongoing dialogue with all stakeholders
- Monitoring of legislative developments
- Monitoring and influencing political and non-political decision-making processes

F > Major projects

In the coming years, several major projects (Master Plan, central security non-Schengen, Departure Lounge 2, Hilton Hotel) will be implemented concurrently. This results in substantial project risks: delays and budget overruns. In that event, the original project assumptions could no longer apply, as a result of which the project is no longer sufficiently in line with demand.

Control measures

- Specialised project management department
- External benchmarks with regard to the implementation of major projects
- Applying a standardised method for the implementation of major projects

G > International operations

Conducting business abroad offers benefits and opportunities but also involves specific risks that do not apply in the Netherlands.

Control measures

- Limiting risks to local subsidiaries
- Competent local management and engaging reputable local advisors
- Maintaining good relationships with local airport authorities
- Extensive attention to financial instruments and valuation of participations

Operational risks**H > Operational risks aviation****Safety and security**

Inadequate security or safety measures increase the risk of operational disruptions and the risk of incidents or accidents with possibly serious consequences for passengers, local residents and employees of companies at Schiphol.

Unexpected business interruptions

Extreme weather conditions or natural phenomena, fire, pandemics, aircraft accidents and technical or power failures can disrupt business processes which, in turn, could seriously affect airport operations, the financial result and future prospects.

Control measures

- Safety management systems
- Training and drills
- Investing in innovations (such as security scan)
- Assessing the execution of security controls through random checks
- Operational safety training for employees
- Company emergency plans and procedures.
- Emergency measures
- Prepared and well-trained staff
- Insurances

Dependence on third parties

The airport depends to a large extent on the efforts and equipment of third parties, including government authorities, the Dutch Border Police (Koninklijke Marechaussee), Dutch Customs and industry partners, such as the airlines and handling agents. Strikes, business interruptions or unethical behaviour of external parties could disrupt operations, damage our reputation and negatively affect the financial result.

- Keeping covenants and agreements up to date and good mutual relationships and contacts with external parties
- Screening of external parties
- Adequate coordination and contract management

Financial risks

I > Market risk, liquidity risk and counterparty risk

Schiphol Group faces a variety of financial risks, such as currency, price and interest rate risks, liquidity risks and counterparty risk.

Schiphol also attaches great importance to preserving its creditworthiness: the loss of its A rating may lead to reduced access to financing and higher borrowing costs.

Control measures

- Maintaining a sufficient liquidity position
- Proactive refinancing strategy
- Balanced distribution of loans and repayments
- Monitoring of creditworthiness (Standard & Poor's A rating) to ensure access to capital markets
- Limiting currency and interest rate risks
- Monitoring counterparty creditworthiness (minimum Standard & Poor's A rating)

Compliance risks

J > Exceeding noise and environmental standards

We are required to comply with complex national and international noise and environmental regulations. Although we have little influence on the drafting of these regulations, any breaches of the standards can have negative financial and operational consequences.

Control measures

- Monitoring of noise and emissions
- Collaboration with regulatory authorities and executive bodies
- Differentiation of charges and operational measures aimed at the selective use of night-time capacity and the scarce environmental capacity