



Statutory Auditor's Report

To the General Meeting of Flughafen Zürich AG, Kloten

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Flughafen Zürich AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters



Provision for formal expropriations plus sound insulation and resident protection, Intangible asset from right of formal expropriation



Investments in property, plant and equipment

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Provision for formal expropriations plus sound insulation and resident protection, Intangible asset from right of formal expropriation

Key Audit Matter

As at 31 December 2017, Flughafen Zürich AG has recognised provisions for sound insulation and resident protection amounting to CHF 102.7 million and a further CHF 316.6 million for formal expropriations. The intangible asset from the right of formal expropriation amounts to CHF 131.7 million as at that date.

Under Article 36a of the Civil Aviation Act (CAA) and the Federal Expropriation Act in connection with Articles 679 and 684 of the Swiss Civil Code (CC), Flughafen Zürich AG must bear the cost of formal expropriations and costs relating to sound insulation and resident protection measures as stated in Article 20 f. of the Environmental Protection Act (EPA) and its corresponding ordinances. According to current legal practice, one of the many preconditions for any noise-related claim is that noise emissions must have exceeded the emission limits for commercial airports in effect since 1 June 2001. Both the operating licence and aviation and environmental laws form the basis for refinancing such costs through air traffic charges (noise-related landing charges or special surcharges on passenger charges).

The reporting of noise-related costs in the financial statements is a complex matter that involves significant judgement of the Group's management in relation to the application of accounting policies. Furthermore, it involves significant management assumptions and estimates concerning the obligation to recognise provisions as well as the measurement of the provisions and the capitalisation of such costs.

These judgements, assumptions and estimates are based on information available at the reporting date and affect the amounts recognised for the provision for sound insulation and resident protections plus formal expropriation as well as the intangible asset from the right of formal expropriation. There is the risk that actual results that are largely beyond the Company's influence may differ from these estimates and assumptions and may result in material adjustments to the amounts recognised for the provisions and the intangible asset. Furthermore there is the risk that the intangible asset might be impaired.

Our response

With regard to the provisions we mainly performed the following audit procedures:

- Assessment of the obligation to recognise provisions
- Evaluation of the calculation base and the parameters used for measuring provisions; assessment of underlying assumptions and comparison against available internal and external data
- Recalculation of the cost calculation on a sample basis
- Assessment of the reasonableness of the estimates by back-testing historical estimates to actual payments
- Evaluation of design, implementation and effectiveness of controls embedded in internal processes based on a sample in relation to payments made for formal expropriations as well as sound insulation and resident protection measures

With regard to the provision for formal expropriations we further performed the following audit procedures:

- Analysis of developments in ongoing legal proceedings and evaluation of significant leading questions and their assessment by the Group's management
- Analysis of quarterly summaries of ongoing legal proceedings and semi-annual noise report submitted to the Group's management and the Board of Directors as well as in-depth evaluation of consequential questions
- Inspection whether current cost estimates are adjusted upon development in ongoing proceedings and issuance of further decisions by the court of final appeal and corresponding adjustments are made in accordance with the respective accounting policies

The intangible asset from the right of formal expropriation is closely related to the provision for formal expropriations. In that regard we mainly performed the following audit procedures:

- Recalculation of amortisation charges recognised and comparison to the concurring accounting policy
- Evaluation of the assessment on existence of impairment triggers and discussion of resulting questions with the head of controlling and accounting

We note that, as discussed in the notes to the consolidated financial statements, the uncertainties and risks

with regard to noise-related costs could have significant effects on the nature and scope of the business activities and thus on the financial position, the results of operations and the cash flows of Flughafen Zürich AG. At present, such effects cannot be conclusively determined.

For further information on the provision for formal expropriations plus sound insulation and resident protection and the intangible asset from right of formal expropriation refer to:

- I Accounting policies, Summary of significant accounting policies, Intangible assets and Provisions
- II Judgements and significant estimates and assumptions in the application of accounting policies, Current risk situation, 1.6 Reporting of noise-related costs in the financial statements
- III Notes to the consolidated financial statements, Note 10 Intangible assets, Note 19 Provision for formal expropriations plus sound insulation and resident protection and Note 24.4 Contingent liabilities

Supplementary notes to the accounting for noise-related costs are available in the 2017 annual report, section on Risk Management, Current risk situation, 6. Noise-related costs



Investments in property, plant and equipment

Key Audit Matter

Property, plant and equipment used for operations (assets in use) and assets under construction for operating activities together comprise 62% of total assets (CHF 2,658.7 million). As part of the masterplan and the strategic capital expenditure roadmap, Flughafen Zürich AG is investing in the maintenance, optimisation and expansion of its operational capacity and quality through large-scale investments and renovations. In 2017, investments in property, plant and equipment amounted to CHF 146.9 million.

In that regard the following risks exist:

- inexistence of assets due to intense construction activities including major renovation projects
- maintenance and renovation expenditures are capitalised instead of charged to profit or loss
- inappropriate determination or periodical re-assessment of useful lives
- delayed recognition of depreciation charges for construction projects (upon final completion of projects and corresponding reclassification from assets under construction to assets in use instead at the time the asset is taken into operation)
- Impairment of property, plant and equipment

Our response

We mainly performed the following audit procedures:

- Evaluation of design, implementation and effectiveness of controls embedded in the procurement and capital expenditure process and of controls securing existence of property, plant and equipment on a sample basis
- Assessment of the capitalisation of expenditure in assets under construction based on samples
- Reconciliation of capitalised expenditure to the invoices received based on samples
- Evaluation of the adequacy of useful lives assigned to single assets and reconciliation to useful lives according to the internal manual for determination of useful lives
- Evaluation of the periodic re-assessment of useful lives by the Group's management
- Examination of transfers from assets under construction to assets in use based on the evaluation of effectiveness of internal controls and specifically selected project completion protocols
- Evaluation of the assessment on existence of impairment triggers and discussion of resulting questions with the head of controlling and accounting



For further information on property, plant and equipment refer to:

- I Accounting policies, Summary of significant accounting policies, Property, plant and equipment
- III Notes to the consolidated financial statements, Note 8 Property, plant and equipment

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

A handwritten signature in black ink, appearing to read 'M. Schaad', written in a cursive style.

Martin Schaad
Licensed Audit Expert
Auditor in Charge

A handwritten signature in black ink, appearing to read 'S. Seiler', written in a cursive style.

Samuel Seiler
Licensed Audit Expert

Zurich, 26 February 2018