ZÜRICH AIRPORT

FLUGHAFEN ZÜRICH AG
ANNUAL REPORT

2018

KEY FINANCIAL DATA

KEY DATA (5-YEAR SUMMARY)

(CHF 1,000)	2014	2015	2016	2017	2018
Total revenue	963,479	988,973	1,012,804	1,037,125	1,152,897
of which aviation revenue	574,959	597,389	620,402	624,241	656,667
of which non-aviation revenue	388,520	391,584	392,402	412,884	496,230
Operating expenses	–439,981	–486,157	–434,000	–453,485	–581,918
Earnings before interest, tax, depreciation and amortisation (EBITDA)	523,498	502,816	578,804	583,640	570,979
EBITDA margin (in %)	54.3	50.8	57.1	56.3	49.5
Earnings before interest and tax (EBIT)	294,622	274,644	337,350	339,899	326,527
EBIT margin (in %)	30.6	27.8	33.3	32.8	28.3
Profit	205,921	179,807	248,018	285,527	237,841
Cash flow from operating activities	460,726	456,177	471,869	529,744	538,359
Cash flow from investing activities	–220,401	–119,524	–167,482	–542,322	–273,351
Invested capital as at reporting date 1)	3,200,107	3,186,427	3,215,677	3,470,749	3,516,827
Average invested capital 1)	3,306,807	3,193,267	3,201,052	3,343,213	3,493,788
Return on average invested capital (ROIC in %)	7.1	6.8	8.4	8.1	7.4
Equity as at reporting date	2,140,522	2,212,437	2,260,149	2,401,135	2,414,853
Return on equity (in %)	9.8	8.3	11.1	12.3	9.9
Equity ratio (in %)	53.6	54.7	55.6	55.9	55.3
Interest-bearing liabilities (net) 2)	372,202	174,683	102,020	57,894	146,380
Interest-bearing liabilities (net)/EBITDA 2)	0.71x	0.35	0.18x	0.10x	0.26x
Key data for shareholders of Flughafen Zürich AG 3)					
Number of issued shares	30,701,875	30,701,875	30,701,875	30,701,875	30,701,875
Ordinary dividend per share (CHF)	2.70	3.00	3.20	3.30	3.70
Payout ratio (in %) 4)	40.3	51.2	39.6	35.5	47.8
Additional dividend per share (CHF)	n/a	3.20	3.20	3.20	3.20
Equity per share (CHF)	69.72	72.06	73.62	78.21	78.65
Basic earnings per share (CHF)	6.71	5.85	8.07	9.29	7.75
Diluted earnings per share (CHF)	6.70	5.85	8.07	9.29	7.75

1) Invested capital includes equity, interest-bearing debt (and until 2014 the fair values of the hedging instruments).
2) Interest-bearing liabilities (net) include interest-bearing debt (and until 2014 the fair values of hedging instruments) less cash and cash equivalents, interest-bearing current and non-current financial assets and fixed-term deposits.
3) A 5-for-1 share split was implemented on 6 May 2016. For the purpose of comparison, the previous year’s figures have been adjusted accordingly.
4) Additional dividend from capital contribution reserves not included.

CONTENTS

ADDRESS TO SHAREHOLDERS

DEAR SHAREHOLDERS,
DEAR SIR OR MADAM

As the demand for international mobility continues to grow, 2018 saw a further year of rising passenger volumes. For the first time ever in the history of the company, at the end of the reporting year the number of passengers had passed the 30 million mark. Building on our high standards, we were able to further develop both the safety of flight operations and the quality of the passenger experience at Zurich Airport. We are continually investing in the entire airport complex in order to satisfy the demand for global mobility into the future. This requires a stable political and regulatory environment in terms of both future aviation capacity and the ability to finance the ground infrastructure.

In addition to the regulated aviation business, we are constantly expanding our involvement in non-regulated ventures too. Our commercial centres both landside and airside are proving highly popular and are performing very well despite the generally lacklustre performance of the retail market as a whole. During the year under review we hit our targets for progress in both the construction and marketing of our major project THE CIRCLE. This new all-round go-to destination at Zurich Airport is increasingly becoming a visible reality and is set to strengthen our airport as a leading centre in the Greater Zurich Area. Abroad, the construction of a new airport terminal in the Brazilian city of Florianópolis – our biggest project at present – is also well on track.

In 2018, Flughafen Zürich AG generated a profit of CHF 237.8 million. The Board of Directors is proposing to the General Meeting of Shareholders the payment of an ordinary dividend of CHF 3.70 per share – which is CHF 0.40 more than in the previous year – and payment of an additional dividend from reserves from capital contributions of CHF 3.20 per share.

PASSENGER VOLUMES AND KEY FINANCIAL DATA

In 2018, for the first time ever more than 30 million passengers passed through Zurich Airport, to be precise a total of 31,113,488. This represents a year-on-year increase of 5.8%. The number of local passengers rose by 5.6% to 22.0 million. The transfer passenger share increased to 28.4% (2017: 28.3%) as the number of transfer passengers at Zurich Airport went up by 6.4% to 8.8 million. Equally notable is the further increase in the number of peak days on which over 100,000 passengers travelled. During the year under review, Zurich Airport recorded 63 of these peak days (versus 22 in the previous year), and in July saw an all-time record of just under 115,000 travellers on a single day.

DAYS WITH OVER 100,000 PASSENGERS

63

Over 100,000 passengers passed through Zurich Airport on 63 days.

There were 278,458 flight movements in 2018, 3.0% higher than in 2017, while air freight volumes grew 0.6% year on year. A total of 493,222 tonnes of freight were transported.

In the 2018 financial year, Flughafen Zürich AG's revenue grew CHF 115.8 million to CHF 1,152.9 million (+11.2%). Of the total revenue, approximately 57% was attributable to aviation and 43% to non-aviation business. Higher commercial and parking revenue as well as business abroad contributed to this growth. After deducting operating expenses amounting to CHF 581.9 million and depreciation of CHF 244.5 million, earnings before interest and tax (EBIT) came to CHF 326.5 million (2017: CHF 339.9 million). During the year under review, earnings before interest and tax (EBIT) were affected by a one-off amount of CHF 57.6 million for the increase of the provision for sound insulation measures.

Profit for the financial year just ended amounts to CHF 237.8 million, down CHF 47.7 million from the prior-year period. While both the payment of CHF 3.8 million received in connection with the liquidation of Swissair in debt restructuring proceedings and the one-off gain of CHF 31.4 million resulting from the disposal of the remaining 5% interest in Bangalore International Airport Ltd. impacted positively on profit in the prior year, the increase of the provision for sound insulation measures reduced consolidated profit for the year under review by CHF 45.8 million. Adjusted for these one-off items, profit rose by CHF 33.3 million year on year to CHF 283.6 million (+13.3%).

Flughafen Zürich AG invested CHF 290.1 million in ongoing projects in the reporting period (2017: CHF 239.0 million).

AIRPORT CHARGES ORDINANCE

In November 2018, the Federal Office of Civil Aviation (FOCA) presented its proposals for revising part of the Ordinance on Airport Charges. The specific changes proposed will substantially increase the amount of economic added value skimmed off in two areas: in future 50% instead of 30% from airside commercial activities and 75% instead of 30% of road vehicle parking are to be used to cross-subsidise flight operations. By contrast, there is to be no change to the formula used to calculate return on invested capital which, in the light of persistently low or even negative interest rates in the forthcoming charging period, would lead to a very low cost of capital being applied. The Flughafen Zürich AG share price fell sharply in response to this announcement.

Flughafen Zürich AG does not object in principle to a further reduction in charges in the next charging period. However, FOCA's proposed changes to the Ordinance on Airport Charges include significantly harsher provisions that would result in Flughafen Zürich AG losing an excessive amount of money to invest in the airport's infrastructure. If these proposed provisions were to be imposed in conjunction with a lower return on capital, aviation revenues at Zurich Airport would drop by around 25% in the next charging period.

We will resist any proposed slashing of earnings from our aviation business which would deprive us of the means to invest in the airport's infrastructure in future.

As a private sector company playing a vital role in Switzerland's economy, we finance all ground infrastructure from our own resources, as this is the basis for the extraordinary attractiveness of Zurich Airport. If we were to lose this ability to invest, the confidence of investors in Switzerland's financial market and the location quality would suffer long-term damage. This cannot be in the interests of our country's international connectivity. We hope that the full Federal Council, which has the ultimate say on amendments to the charges ordinance, is aware of these far-reaching consequences.

"The airport charges are the basis for financing the aviation infrastructure and enable the constant renewal and expansion of Zurich Airport to its acknowledged high standards."

Andreas Schmid
Chairman of the Board of Directors

FLIGHT OPERATIONS

PARTIAL APPROVAL OF 2014 AMENDMENTS TO OPERATING REGULATIONS

FOCA has approved our application relating to the partial approval of the amendments to our operating regulations proposed in 2014 (BR2014). The decision was challenged by municipalities and private individuals and is currently due to be heard by the Swiss Federal Administrative Court. Particularly significant improvements are the lowering of the minimum altitude for runway 32, which will now allow four-engined aircraft such as the Airbus A340 to take off from this runway in the evenings. This will reduce unnecessary runway crossings, significantly shorten the taxiing time for long-haul aircraft from Dock E and help to minimise delays in the evenings. No approval has yet been granted for the most important safety measure for Zurich Airport, namely the separation of take-off and approach routes in its east concept. This element of BR2014 also requires Germany to consent to the original submission, which it has yet to do.

2017 AMENDMENTS TO OPERATING REGULATIONS AND SECURITY ZONE PLAN

The amendments to the operating regulations proposed in 2017 (BR2017), based on the framework set out in SAIP2, were published for public consultation in September of the year under review. All the measures requested in BR2017 are intended to contribute to even more stable, safe and efficient flight operations in all weather conditions. As well as improving the safety margin, in particular the new “bise” wind concept and the fanning out of take-offs from runway 28 will help to cut delays. Owing to the extraordinarily lengthy legal proceedings involved, it is unlikely that the various individual optimisation measures will be implemented for some years yet.

At the same time as BR2017, the specification of new night noise contours and the revised security zone plan were published for consultation. The previous plan dated from 1978 and no longer complied with the requirements of the International Civil Aviation Organization (ICAO). The revised security zone plan now includes all flight paths in the 2017 operating regulations. The restrictions do not affect any existing buildings.

NEW AIRLINES AND DESTINATIONS

2018 saw the addition of more new airlines and destinations at Zurich Airport, and the expansion of the long-haul sector was especially welcome. Hainan Airlines is now flying to Shenzhen in China, while Sichuan Airlines has introduced a service to Chengdu (via Prague). Edelweiss Air has extended its offering to include new long-haul destinations Buenos Aires, Colombo, Ho Chi Minh City, Mahé, Varadero, Denver and Orlando. Further new destinations in the USA include Philadelphia courtesy of American Airlines and San Francisco with United Airlines, while Air Canada is now also flying to Vancouver. Our hub carrier Swiss International Air Lines has extended its European network in particular with new services to Bremen, Brindisi, Marseille and Sylt. Cyprus Airways returns to Zurich with a flight to Larnaca on Cyprus.

NEW INFRASTRUCTURE ON THE APRON

Thanks to a new 200-metre long access taxiway on runway 16, aircraft will be able to line up more flexibly and efficiently when taking off, which in turn will improve punctuality. Two additional high-speed taxiways are being built for runway 28 on the western side of Zurich Airport. They form part of the measures derived from the SAIP detailed plan and allow aircraft to exit the landing runway more quickly so it can be released to the next aircraft faster. The first high-speed taxiway went into operation in December 2018 and the second one is scheduled for completion in June 2019.

NEW STANDS

10

New aircraft stands were opened on the southern side of the airport at the end of 2018.

Ten new open aircraft stands on the southern side of the airport were opened in October 2018. They provide eight hectares of space for medium-haul aircraft and are helping to meet the rising demand for stands for inter-European flights.

REVENUE GROWTH AND NEW CONCEPTS IN 2018

Thanks to continually rising passenger numbers, growth in airside revenues was extremely positive. In particular the watches and jewellery segment posted strong growth, as did restaurants and eateries.

Despite the difficult trading climate, landside revenues are stable. The new AIR restaurant that opened at the beginning of the year with over 500 covers and seating for a further 250 on its outdoor terrace is proving highly popular among passengers, employees and visitors, which is also reflected in its healthy turnover.

Mainly changes to food segment concepts are in the pipeline for the coming year, and two new luxury boutiques will augment the airside offering.

PARKING AND LANDSIDE TRANSPORT

The renovation of car park P1 is on track, and the car parks are being well used throughout the financial year, in some part also thanks to increasing sales of parking services online. Since the installation of 38 electric vehicle charging points in car park P6, around 1,400 charging sessions have been logged.

The Oberhau car park project with direct access planned to the Glatttalbahn tram line is still on hold. In May 2018 the Swiss Federal Administrative Court rejected objections to the planning application. The Swiss Association for Transport and Environment (VCS) then submitted an objection to the Swiss Federal Supreme Court. As a result, this building project has been further delayed. As of the end of the reporting year, the number of trams to Zurich Airport on the Glatttalbahn in the early morning will be increasing, which will benefit both shift workers and passengers alike.

THE CIRCLE

When THE CIRCLE opens in 2020, Zurich Airport is undoubtedly set to become a leading centre in the Greater Zurich Area. Various new tenants such as Raiffeisen and Microsoft Switzerland were acquired in the year under review. The latter is planning to move its head office to THE CIRCLE and has also entered into a strategic partnership with Flughafen Zürich AG for digitalisation of THE CIRCLE. Contracts have also been signed with further tenants in the healthcare sector and well-known restaurateurs.

The above-ground work is proceeding on schedule. Three of the six buildings have already reached their final height, and in some cases entire facades are in place. The adjacent park is being upgraded and the associated planning consents have been granted. This will create a public space for rest and relaxation where people can get together and be surrounded by nature, yet still be within walking distance of the airport terminals. THE CIRCLE is also setting new standards as far as sustainability is concerned. The complex will receive LEED Platinum certification, and the MINERGIE label also confirms that it is built to be extremely energy-efficient.

"THE CIRCLE and the park will enhance Zurich Airport as a major meeting centre in Zurich."

Stephan Widrig
Chief Executive Officer

INTERNATIONAL

After acquiring the concession the previous year, Flughafen Zürich AG took over the operation of Florianópolis airport in southern Brazil in January 2018. Just a few months later it already commenced building a new terminal for it, which is scheduled for completion in the second half of 2019.

Flughafen Zürich AG is currently involved in the operation of six airports in Latin America. Along with Latin America, the development of our international business is focused on projects in Asia. To develop the market in Asia, the airport operator set up a Regional Office in Kuala Lumpur, Malaysia, which will be able to coordinate expansion and seize market opportunities when they arise.

OUTLOOK AND THANKS

Flughafen Zürich AG is operationally, financially and strategically on very solid foundations. Thanks to our very high quality standards and cost-conscious approach, we are currently competitive as a mid-sized air transport hub in the heart of Europe. If we are to remain so over the long term, we need prudent ongoing development of the political and regulatory environment, in particular in relation to our ability to finance our infrastructure and simplify flight operations. At the same time we are reducing our dependency on aviation growth in

Zurich by turning our airport into a major business and lifestyle destination and by seeking to grow our aviation business in emerging economies in Latin America and Asia.

In the autumn of 2018, to celebrate our 70th anniversary, we held an airport experience weekend as part of a large public festival. Around 70,000 enthusiastic visitors demonstrated vividly that the public supports and shares our fascination with Zurich Airport.

We would like to thank all partners and stakeholders of Zurich Airport most warmly, and also thank our employees for their exceptional commitment to our company and to our airport over the past year.

Zurich Airport, 7 March 2019

Andreas Schmid
Chairman of the Board of Directors

Stephan Widrig
Chief Executive Officer

FLUGHAFEN ZÜRICH AG

Flughafen Zürich AG is the owner and operator of Zurich Airport. Its business model combines the professional management of large transport hubs with the administration of attractive commercial centres and real estate. Thanks to the high quality of its services, Zurich Airport enjoys an excellent reputation.

As Switzerland's gateway to the world, Zurich Airport is a quality airport at the heart of Europe, offering excellent access to international, national and regional transport networks. Zurich Airport regularly wins awards for its excellent services, short transfer distances, friendly staff, clean infrastructure, reliable processes, attractive retail offering and other quality indicators. This performance may be credited to some 27,000 employees at more than 280 partner companies, who ensure each day that passengers and visitors enjoy the time they spend at Zurich Airport.

As a semi-public listed company, Flughafen Zürich AG operates one of the most important transport and meeting hubs in Switzerland. The company focuses on its core activities relating to the operation of airports and management of commercial centres, as well as on profitably managing and further developing real estate and the infrastructure at its Zurich base. Increasingly, it is also involved in holdings in foreign airports and their operation.

ORGANISATIONAL STRUCTURE

The Management Board of Flughafen Zürich AG comprises five members who oversee the company’s four divisions:

ORGANISATION CHART

BOARD OF DIRECTORS

Chairman
Andreas Schmid

Audit & Finance Committee
Chairman: Josef Felder

Nomination & Compensation Committee
Chairwoman: Eveline Saupper

Public Affairs Committee
Chairwoman: Carmen Walker Späh

MANAGEMENT BOARD

Chief Executive Officer
Stephan Widrig

Aviation
Stefan Tschudin, COO

Commercial
Stefan Gross, CCO

Real Estate
Daniel Scheifele, CREO

Finance
Lukas Brosi, CFO

AVIATION

All the tasks required for ensuring safe, efficient and high-quality flight operations are grouped together in the Aviation division. These include all passenger processes related to departure, arrival and transfer, the coordination of stand allocation and the guidance of aircraft on the aprons as well as safety and security. Everything runs smoothly because all major partners are coordinated by a central control body – Airport Steering. The Aviation division is also responsible for all freight-related activities and, together with Aviation Marketing, constitutes the interface to the airlines. Furthermore, the operation of the 800 hectares of airport premises, including planning, utilities, waste management and maintenance of engineering structures, also falls under the remit of Aviation. Moreover, the Aviation division ensures that aviation infrastructures and procedures are developed in order to meet demand, and handles all questions relating to noise management and resident protection.

COMMERCIAL

The Commercial division represents the interests of the airport's end customers. In this capacity, it is responsible for supporting the airport's commercial centres, its landside traffic and marketing. The division develops services and attractive shopping and dining experiences both airside and landside, and operates the most successful shopping centre in Switzerland. Other tasks include overall responsibility for all landside transport services, the airport's various parking products and its connections to public transport as well as all the service and information points, the design of the airport's digital presence and its overarching marketing and branding.

REAL ESTATE

The Real Estate division is responsible for the development, construction and the commercial, technical and infrastructural operation of all the buildings and associated building systems at Zurich Airport. Its portfolio ranges from the terminal buildings, office centres, logistics and hangar buildings to the new major project THE CIRCLE. The division ensures that all projects, small and large, are realised within their defined budgets, on schedule, and to the necessary quality standards, and that the airport's real estate and systems are operated optimally throughout their life cycles. These include building technology systems, energy and heat supply, the baggage handling system and the passenger transport system to Dock E.

FINANCE

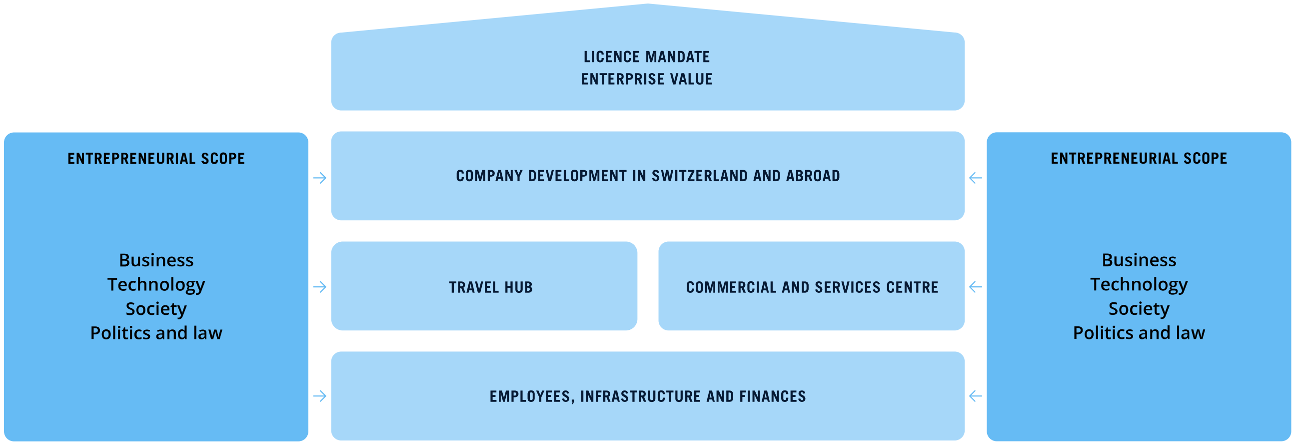
The Finance division oversees the financial management of the company, administers cross-divisional functions and supervises its international airport activities. Along with the usual financial functions including treasury, investor relations and risk management, its remit also includes responsibility for all matters relating to information and communications technology, central purchasing and charge management. As well as overseeing existing management and consultancy agreements, international activities encompass business development and due diligence for new acquisitions.

STAFF UNITS

The four staff units – Corporate Communications, Human Resources, Public Affairs and Legal & Environment – report directly to the CEO. The office of the General Secretary acts as the staff unit for the Board of Directors.

STRATEGY

STRATEGY MODEL



VISION

Zurich Airport is the leading transport and meeting centre in Europe.

MISSION

- We connect Switzerland to the world.
- We welcome our guests round the clock.
- We undertake projects at home and abroad.
- We live “Swissness”.

STRATEGY

Flughafen Zürich AG fulfils the Confederation’s licence mandate and increases the company’s value by

- using its resources (employees, infrastructure, finances) sustainably and optimally exploiting entrepreneurial scope,
- constantly developing the airport as a high-quality travel hub while also ensuring safety and making optimum use of the available infrastructure and technology,
- using the commercial and services centre (real estate, retail, services) to expand flight operations, bring the fascination of flying to life, and generate profits which enable the system as a whole at Zurich Airport to be further developed to a high quality standard, and

- utilising its expertise and experience in projects in Switzerland and abroad to develop new revenue streams in the medium to long term.

PRINCIPLES OF CONDUCT

Our behaviour is goal-oriented and is characterised by loyalty, openness, respect and discipline.

MANAGEMENT PRINCIPLES

We assume responsibility, serve as good examples, offer trust and demand accountability.

COMMITMENT TO SUSTAINABILITY

Flughafen Zürich AG's understanding of sustainability is based on the three dimensions of economic performance, environmental responsibility and social solidarity.

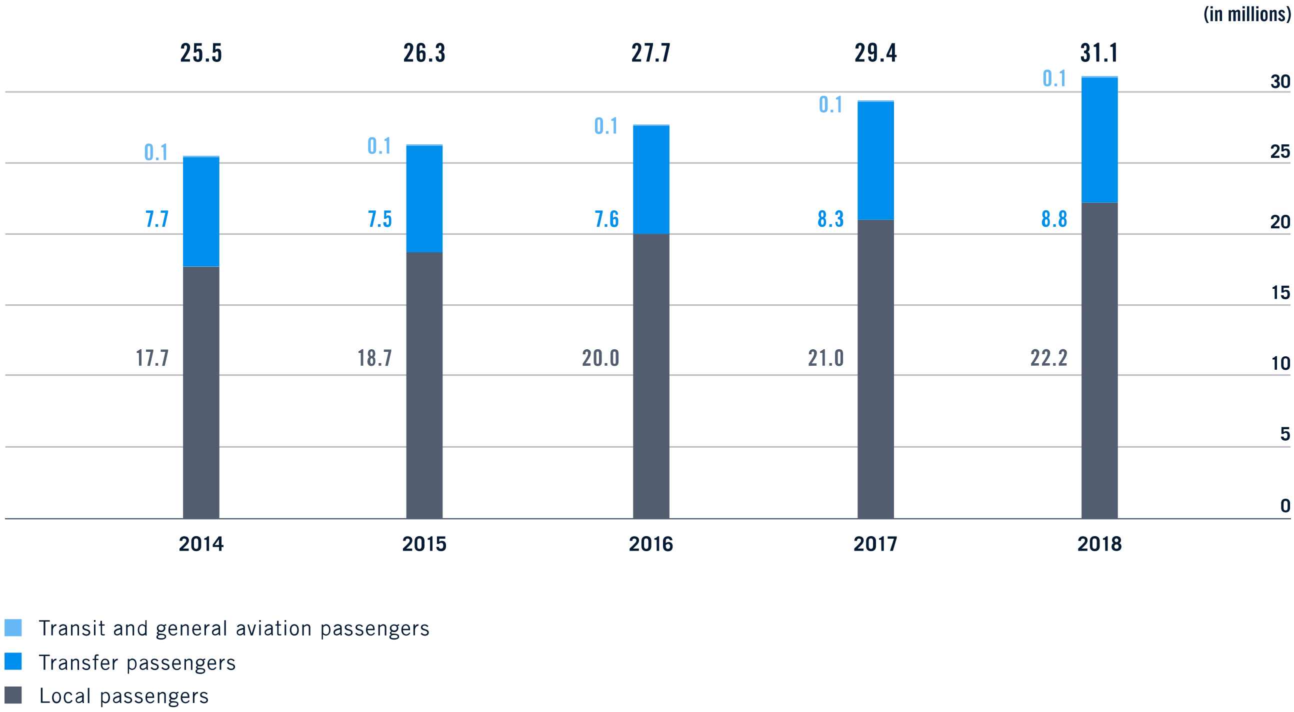
Building on the foundations of safety, quality and efficiency, we operate Zurich Airport in a sustainable way by

- creating long-term added value and consequently contributing to the economy as a whole,
- striving to reduce the impact on the environment and improving environmental efficiency,
- providing an attractive and safe environment for employees, partners, customers and visitors, and engaging in broad-based dialogue with stakeholders.

TREND IN TRAFFIC VOLUME

PASSENGER NUMBERS TOP 31 MILLION FOR THE FIRST TIME

In 2018, Zurich Airport set a new record of 31,113,488 passengers, exceeding the record set in the previous year by 5.8%. In comparison with major European airports, Zurich's growth is therefore slightly above the average of 4.8% (source: ACI Airports Council International).



In 2018, the Zurich Airport catchment area again proved to be a stable and reliable market. Nevertheless, at 22.2 million, the 5.6% growth in the number of local passengers was slightly below overall passenger growth of 5.8%. On the other hand, the number of transfer passengers saw a slightly higher growth rate of 6.4%, taking it up to 8.8 million. The share of transfer passengers thus rose slightly from 28.3% in the previous year to 28.4% in the reporting period. The passenger volume in the scheduled and charter segment went up by 5.8% in 2018, while growing by 3.9% for general aviation.

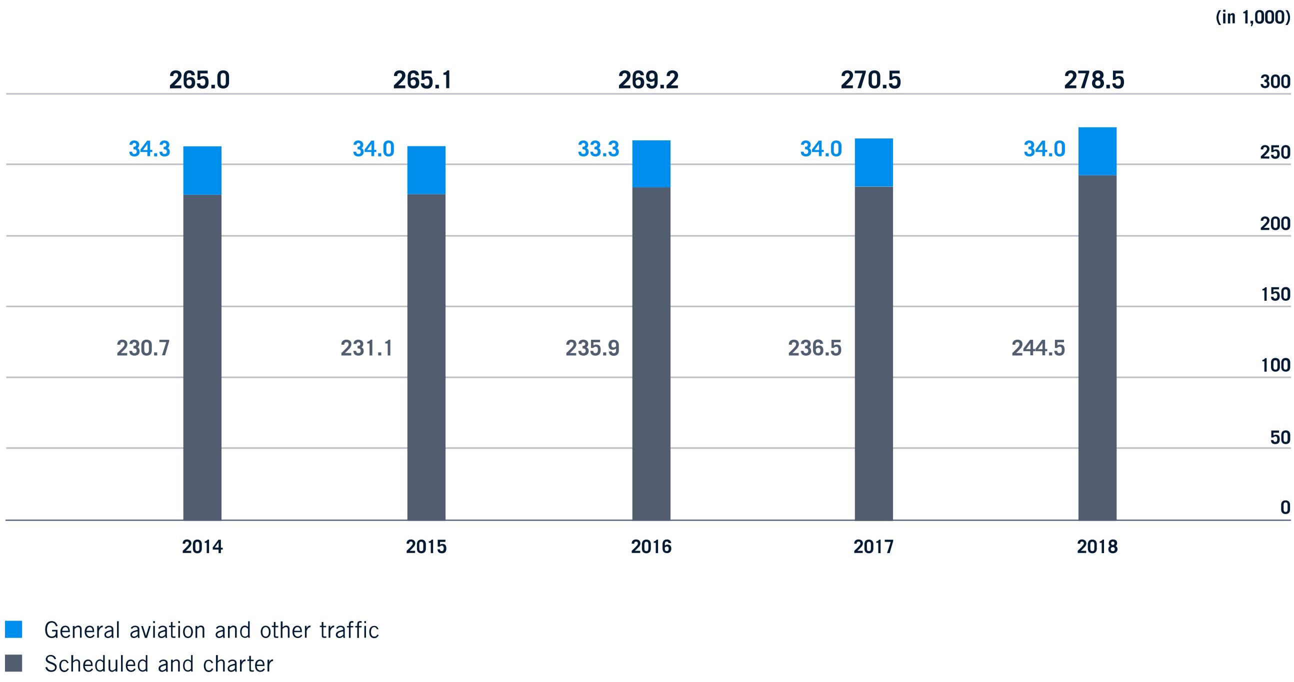
Europe, Zurich Airport's most important market, showed a below-average increase of 4.2%. Intercontinental traffic, on the other hand, experienced above-average growth of 11.2%. The biggest increase in demand was seen for flights to Latin America (+41.1%), followed by Africa (+27.1%), North America (+10.5%), the Middle East (+6.5%) and the Far East (+5.7%).

At 52.9%, in the year under review the passenger share of home carrier Swiss was up slightly from 52.3% in 2017. Edelweiss Air followed with a share of 7.6%, then easyJet with 3.3%, Eurowings with 2.8% and British Airways with 2.0%.

FLIGHT MOVEMENTS UP AND MARGINAL INCREASE IN CAPACITY UTILISATION

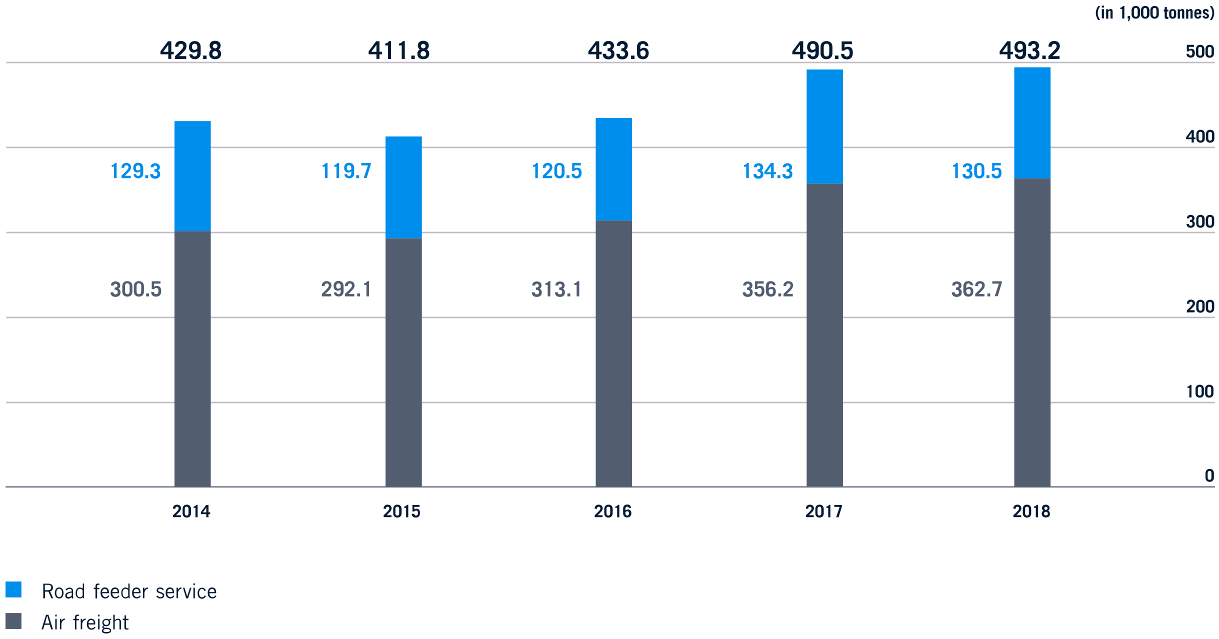
Flight movements totalled 278,458 in 2018, which represents growth of 3.0% compared with the previous year. While the number of scheduled and charter flight movements increased by 3.4%, general aviation contracted by 0.2%.

Owing to capacity expansion by Swiss, Edelweiss Air, easyJet and Germania, the seat capacity increased by 5.0% during the same period. The increase in seat capacity and growth in the number of passengers per flight movement, from 124 to 127, resulted in a 0.6% rise in the seat load factor during the reporting year to 77.9%.



MODERATE FREIGHT GROWTH

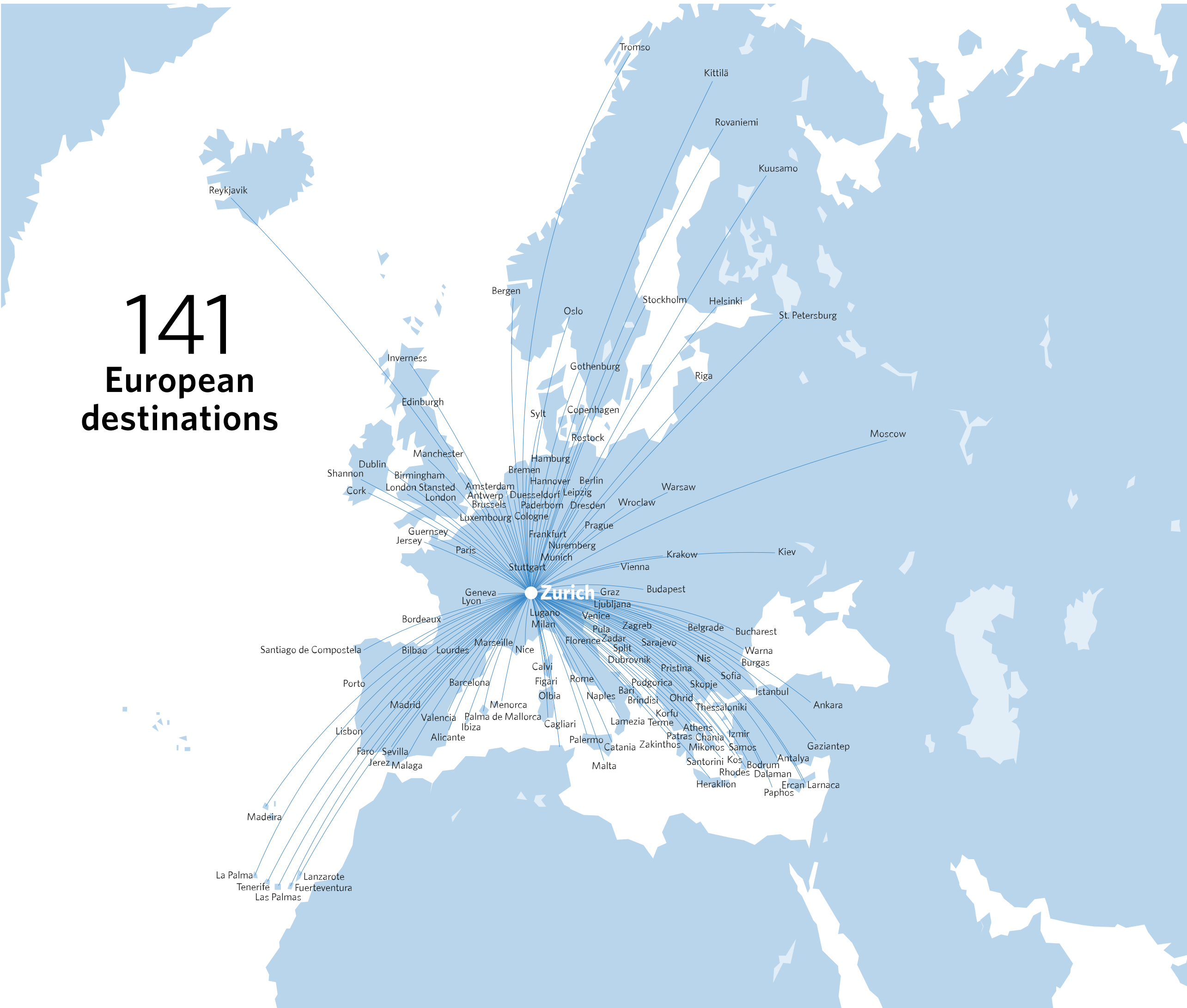
Freight volumes at Zurich Airport increased by 0.6% in 2018 over the 2017 level. A total of 493,222 tonnes of freight were transported during the year under review. While the volume of freight shipped by air was 1.8% higher, substitute air freight transported by road was down 2.8%.



DIRECT CONNECTIONS FROM ZURICH

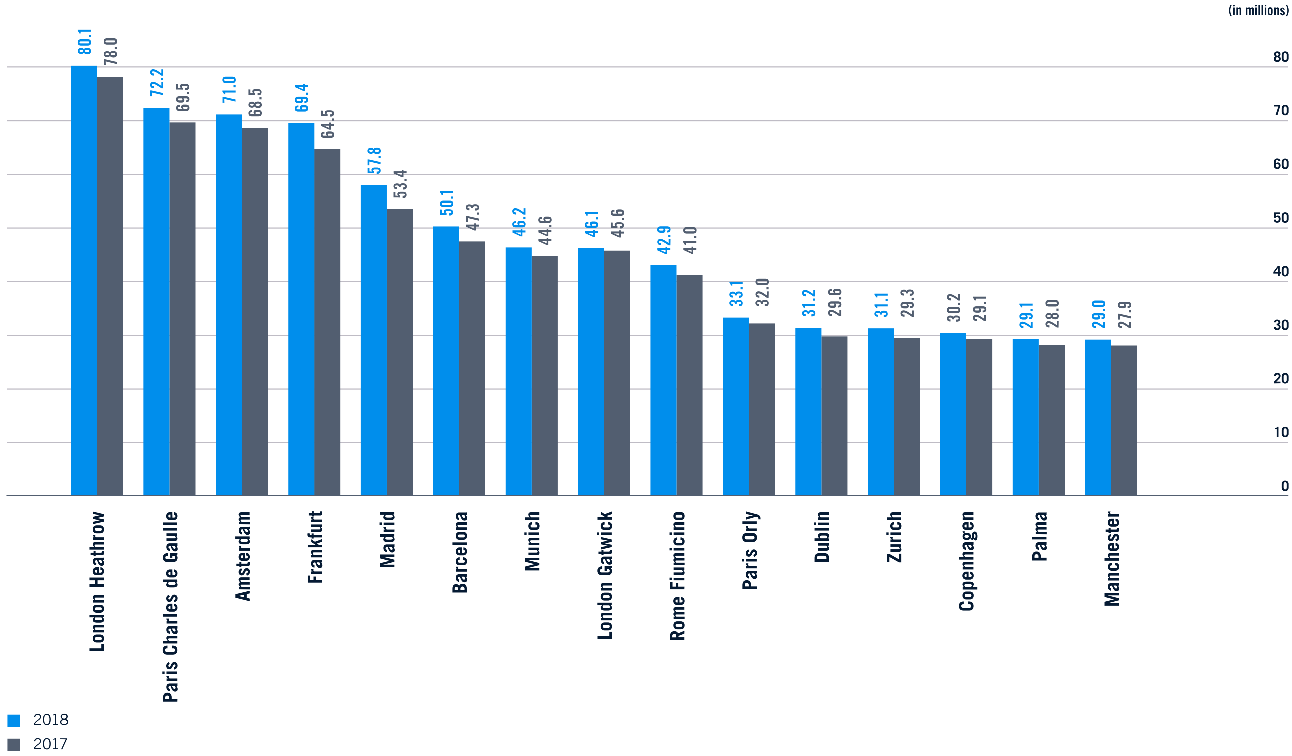
The number of direct destinations served by Zurich Airport in 2018 increased by 21 overall to 206 year on year. In 2018, scheduled and charter airlines operated flights from Zurich Airport to 141 European and 65 intercontinental destinations. A total of 77 scheduled airlines and charter carriers offered services on the route network.

OVERVIEW OF EUROPEAN DESTINATIONS



OVERVIEW OF INTERCONTINENTAL DESTINATIONS

PASSENGERS AT EUROPEAN AIRPORTS



Source: ACI Airports Council International (scheduled & charter)

KEY FINANCIAL DATA

KEY DATA

(CHF 1,000)	2018	2017	Change in %
Total revenue	1,152,897	1,037,125	11.2
of which aviation revenue	656,667	624,241	5.2
of which non-aviation revenue	496,230	412,884	20.2
Operating expenses	–581,918	–453,485	28.3
Earnings before interest, tax, depreciation and amortisation (EBITDA)	570,979	583,640	–2.2
EBITDA margin (in %)	49.5	56.3	
Earnings before interest and tax (EBIT)	326,527	339,899	–3.9
EBIT margin (in %)	28.3	32.8	
Profit	237,841	285,527	–16.7
Cash flow from operating activities	538,359	529,744	1.6
Cash flow from investing activities	–273,351	–542,322	–49.6
Invested capital as at reporting date 1)	3,516,827	3,470,749	1.3
Average invested capital 1)	3,493,788	3,343,213	4.5
Return on average invested capital (ROIC, in %)	7.4	8.1	
Equity as at reporting date	2,414,853	2,401,135	0.6
Return on equity (in %)	9.9	12.3	
Equity ratio (in %)	55.3	55.9	
Interest-bearing liabilities (net) 2)	146,380	57,894	152.8
Interest-bearing liabilities (net)/EBITDA 2)	0.26x	0.10x	
Key data for shareholders of Flughafen Zurich AG			
Number of issued shares	30,701,875	30,701,875	
Ordinary dividend per share (CHF)	3.70	3.30	12.1
Payout ratio (in %) 3)	47.8	35.5	
Additional dividend per share (CHF)	3.20	3.20	0.0
Equity per share (CHF)	78.65	78.21	0.6
Basic earnings per share (CHF)	7.75	9.29	–16.6
Diluted earnings per share (CHF)	7.75	9.29	–16.6
Flughafen Zürich AG (registered share)	Security number	SIX Symbol	Reuters
	31941693	FHZN	FHZN.S
Share price as at 30.06. (CHF)	162.50	222.90	–27.1

1) Invested capital includes equity and interest-bearing debt.
2) Interest-bearing liabilities (net) include interest-bearing debt less cash and cash equivalents, current and non-current financial assets and fixed-term deposits.
3) Additional dividend from capital contribution reserves not included.

	2018	2017	Change in %
Key operational data			
Number of passengers	31,113,488	29,396,094	5.8
Number of flight movements	278,458	270,453	3.0
Freight (in tonnes)	493,222	490,452	0.6
Number of full-time positions as at reporting date	1,757	1,713	2.6
Number of employees as at reporting date	2,033	1,967	3.4

KEY DATA EXCLUDING THE INFLUENCE OF NOISE

Flughafen Zürich AG refinances all costs relating to aircraft noise through noise charges based on the “costs-by-cause” principle. There is a specified purpose for these noise charges, and any surplus, after all noise-related expenses have been paid, must be repaid and does not belong to the owners of Flughafen Zürich AG.

As the consolidated financial statements of Flughafen Zürich AG include noise charges, noise-related expenses and noise-related items in the balance sheet, key figures are also stated for the shareholders excluding the influence of aircraft noise. In the long term, noise-related items will not impact the income statement or cash flow statement of Flughafen Zürich AG.

The figures of the income statement including and excluding the influence of aircraft noise are as follows:

	2018			2017		
(CHF 1,000)	**Including influence of noise**	**Elimination influence of noise**	**Excluding influence of noise**	**Including influence of noise**	**Elimination influence of noise**	**Excluding influence of noise**
Revenue	1,152,897	–11,629	1,141,268	1,037,125	–11,561	1,025,564
Operating expenses	–581,918	60,921	–520,997	–453,485	3,495	–449,990
EBITDA	570,979	49,292	620,271	583,640	–8,066	575,574
Depreciation and amortisation	–244,452	4,790	–239,662	–243,741	5,314	–238,427
EBIT	326,527	54,082	380,609	339,899	–2,752	337,147
Profit	237,841	48,441	286,282	285,527	–1,285	284,242

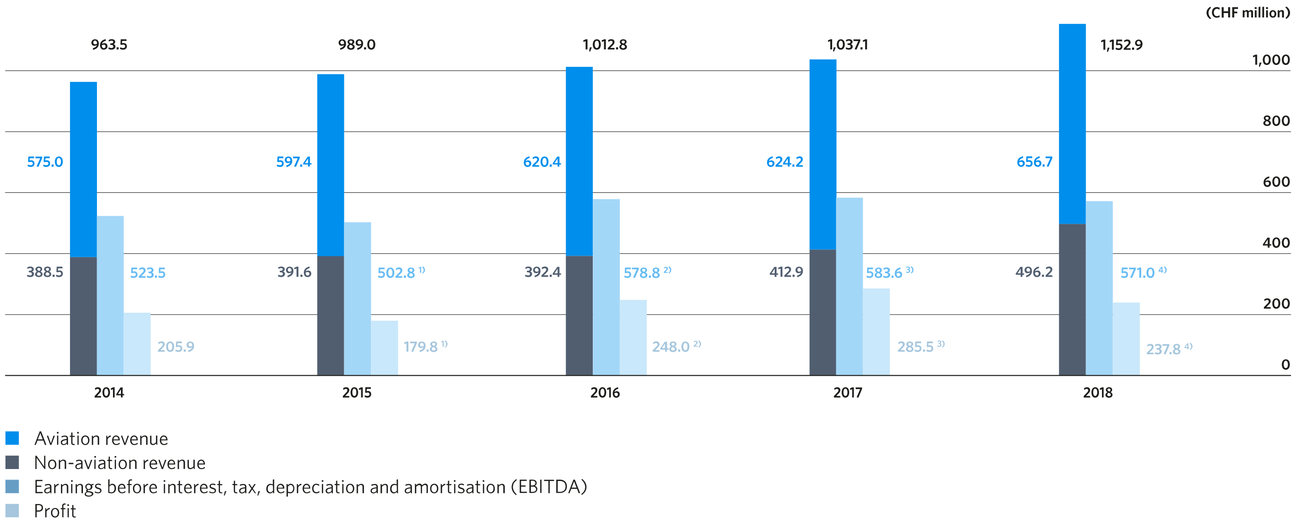
As a result the adjusted key figures excluding the influence of aircraft noise are as follows:

(CHF 1,000)	2018	2017	Change in %
Total revenue	1,141,268	1,025,564	11.3
of which aviation revenue	645,038	612,680	5.3
of which non-aviation revenue	496,230	412,884	20.2
Operating expenses	–520,997	–449,990	15.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)	620,271	575,574	7.8
EBITDA margin (in %)	54.3	56.1	
Earnings before interest and tax (EBIT)	380,609	337,147	12.9
EBIT margin (in %)	33.3	32.9	
Profit	286,282	284,242	0.7
Cash flow from operating activities	547,660	540,640	1.3
Cash flow from investing activities	–300,933	–510,528	–41.1
Invested capital as at reporting date 1)	3,406,994	3,313,250	2.8
Average invested capital 1)	3,360,122	3,189,578	5.3
Return on average invested capital (ROIC in %)	9.0	8.4	
Equity as at reporting date	2,323,333	2,261,179	2.7
Return on equity (in %)	12.5	13.0	
Equity ratio (in %)	60.9	61.1	
Interest-bearing liabilities (net) 2)	579,830	515,181	12.5
Interest-bearing liabilities (net)/EBITDA 2)	0.93x	0.90x	
Key data for shareholders of Flughafen Zurich AG			
Payout ratio (in %) 3)	39.7	35.6	
Equity per share (CHF)	75.67	73.65	2.7
Basic earnings per share (CHF)	9.32	9.25	0.8
Diluted earnings per share (CHF)	9.33	9.25	0.9

1) Invested capital includes equity and interest-bearing debt.
2) Interest-bearing liabilities (net) include interest-bearing debt less cash and cash equivalents, current and non-current financial assets and fixed-term deposits.
3) Additional dividend from capital contribution reserves not included.

FINANCIAL DEVELOPMENT

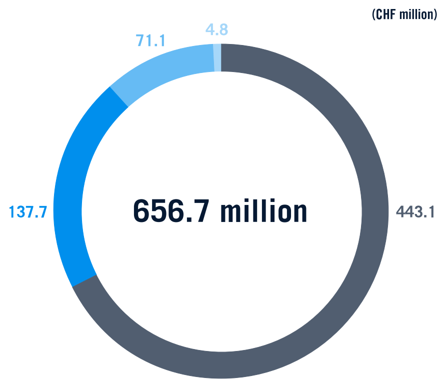
A total of 31.1 million passengers passed through Zurich Airport in the 2018 financial year, an increase of 5.8%. Over this period, Flughafen Zürich AG generated revenue of CHF 1,152.9 million, representing a year-on-year increase of 11.2%. Owing to one-off effects, consolidated profit fell by CHF 47.7 million to CHF 237.8 million. While disposal of its stake in Bangalore Airport in particular had lifted the previous year's result, additional provisions for sound insulation measures had a negative impact in the 2018 financial year. After adjusting for these one-off effects, profit rose by 13.3%.



1) After expenditure for increased provisions for sound insulation and resident protection, revenue from adjustments to the net defined benefit obligations as a result of the announced change to the BVK scheme, and profit from the sale of a portion of land for THE CIRCLE and transfer of the associated project costs.
2) After revenue from an additional purchase price payment for the land for THE CIRCLE (2nd phase) and from an advance payment from the bankruptcy assets of the former Swissair.
3) After revenue from an advance payment from the bankruptcy assets of the former Swissair (EBITDA level) and gain on sale of the remaining stake in Bangalore International Airport Ltd. (profit level).
4) After expenditure for increasing the provisions for sound insulation and resident protection.

RESULTS TREND

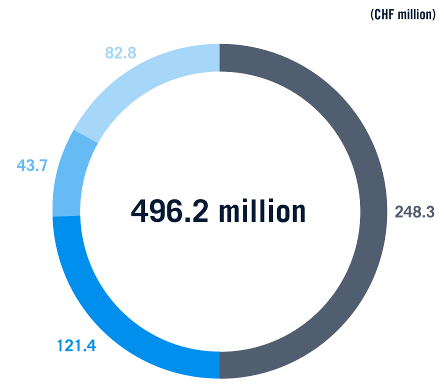
AVIATION REVENUE



- **67.5%** Passenger-related flight operations charges
- **21.0%** Other flight operations charges
- **10.8%** Aviation fees
- **0.7%** Other aviation revenue

As a result of the strong traffic growth achieved, aviation revenue grew from CHF 624.2 million to CHF 656.7 million (+5.2%) in the financial year just ended, accounting for around 57% of Flughafen Zürich AG's total revenue. Flight operations charges increased by CHF 29.7 million to CHF 580.8 million (+5.4%). Total income from aviation fees and other aviation revenue rose by CHF 2.8 million overall to CHF 75.9 million (3.8%).

NON-AVIATION REVENUE



- **50.0%** Commercial and parking revenue
- **24.5%** Revenue from facility management
- **8.8%** Revenue from services
- **16.7%** Revenue from international business

Overall, non-aviation revenue, which accounted for approximately 43% of total revenue, increased by CHF 83.3 million to CHF 496.2 million (20.2%). The figure was positively impacted by the rise in commercial revenue and above all by the takeover of operations at the airport in Florianópolis in southern Brazil.

Total commercial and parking revenue increased by CHF 14.1 million year on year (+6.0%) to CHF 248.3 million. In commercial operations, our partners lifted revenue by CHF 18.6 million to CHF 593.8 million last year, which translated into commercial revenue of CHF 130.3 million for Flughafen Zürich AG (+8.9%). The slight increase of CHF 1.6 million in earnings from facility management was mainly driven by slightly higher revenue from rental agreements, which is also reflected in a lower vacancy rate during the 2018 financial year. Higher earnings from VIP services and from the airport experience weekend contributed to a year-on-year increase of CHF 2.1 million in revenue from services to CHF 43.7 million (5.0%). Chiefly as a result of taking over the operation of Florianópolis airport in southern Brazil and the associated expansion of infrastructure there, revenue from international airport business was lifted to CHF 82.8 million in the year under review (prior-year period: CHF 17.3 million).

ONE-OFF ITEMS

Flughafen Zürich AG extended its sound insulation programme based on the night-time noise curve in the revised Sectoral Aviation Infrastructure Plan (SAIP2) approved by the Federal Council and an extension of the south-side sound insulation concept. This adds further measures amounting to CHF 60.0 million to the CHF 340.0 million previously estimated for sound insulation and resident protection. The present value of these additional costs of CHF 57.6 million (before tax) was recognised as a provision at the end of the first half of 2018, resulting in a one-off amount of CHF 45.8 million (after tax) being charged to the consolidated income statement. All additional costs will be financed by the Airport of Zurich Noise Fund, which is adequately funded. The measures are due to be completed by the end of 2030.

Operating expenses were lower in the prior year due to receiving payment of CHF 4.8 million (CHF 3.8 million after tax) in connection with the liquidation of Swissair. In addition, the sale of the remaining 5% interest in Bangalore International Airport Ltd. resulted in a gain of CHF 31.4 million (after tax).

OPERATING EXPENSES

Operating expenses rose by 28.3% to CHF 581.9 million in financial year 2018 due in particular to the extension of the sound insulation programme. After adjusting for one-off items, they were up by 14.4%, a rise mainly attributable to setting up operations in Florianópolis. At the Zurich site, operating expenses rose at a much slower pace than the growth in traffic (+2.2%).

Personnel expenses increased by CHF 10.0 million to CHF 211.5 million in the reporting period (+5.0%). As well as a higher headcount and a general pay rise, the increase is due to consolidating the personnel costs of the international holdings (in particular Florianópolis). Costs for police and security, on the other hand, were up by just CHF 1.6 million to CHF 121.2 million (+1.3%). Despite the welcome growth in traffic, expenditure for this at the company's Zurich base actually fell by 0.5%.

OPERATING RESULT AND CONSOLIDATED PROFIT

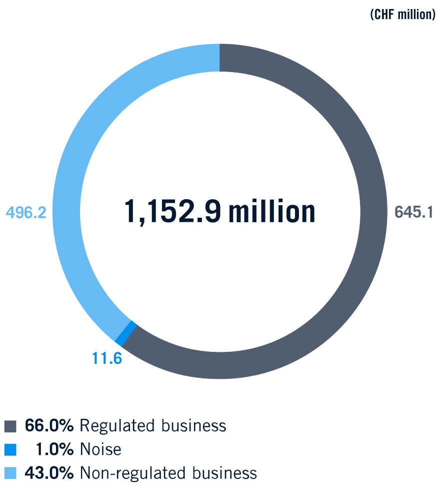
Earnings before interest, tax, depreciation and amortisation (EBITDA) were down on the prior-year figure of CHF 583.6 million to CHF 571.0 million. Adjusted for the aforementioned one-off items, EBITDA climbed by 8.6% to CHF 628.6 million, which equates to an adjusted EBITDA margin of 54.5%.

At CHF 244.5 million, depreciation and amortisation were up slightly on the prior-year figure of CHF 243.7 million. The net finance result was CHF –23.1 million, CHF 4.8 million less than the previous year. The share in the result of associates in the amount of CHF –4.3 million (2017: CHF 33.2 million) essentially reflects the company's share in the profit/loss of the Belo Horizonte airport operator. In the previous year, this item also included the gain from the sale of the remaining 5% interest in Bangalore International Airport Ltd. (CHF 36.3 million before tax).

Consolidated profit for the 2018 financial year amounted to CHF 237.8 million, down CHF 47.7 million on the prior-year result. When adjusted to take account of one-off effects, profit increased by CHF 33.3 million to CHF 283.6 million (+13.3%) compared with the previous year.

SEGMENT REPORTING

REVENUE



REGULATED BUSINESS

During the year under review, revenue from third parties for the regulated segment rose from CHF 612.6 million to CHF 645.1 million. In the same period, earnings before interest and tax (EBIT) for regulated business, which comprises the "Aviation", "PRM", "User fees", "Air security" and "Access fees" segments, improved by CHF 36.6 million to CHF 177.2 million. The improvement is mainly due to higher passenger volumes, including a higher percentage of local passengers, and to lower depreciation in the "Air security" segment. Compared with the previous year, capital invested for regulated business remained virtually unchanged at CHF 1.9 billion, of which CHF 1.4 billion is associated with the "Aviation" segment. In addition to the usual airport infrastructure, invested capital also includes proportionate costs for mixed-use buildings, in particular the terminals. The resulting ROIC for regulated business is 7.3% (2017: 5.9%).

NOISE

Revenue in the "Noise" segment (CHF 11.6 million) was on a par with the previous year. The negative EBIT result is entirely due to the recognition of additional provisions for sound insulation measures in the amount of CHF 57.6 million. As at the reporting date, capital invested in the "Noise" segment stood at CHF 109.8 million and ROIC at –32.2%.

NON-REGULATED BUSINESS

Thanks to higher income from the retail sector and taking over operation of Florianópolis airport in southern Brazil, revenue from third parties for the non-regulated business segment grew by CHF 83.3 million to CHF 496.2 million in the 2018 financial year. EBIT consequently improved by 3.6% to CHF 203.4 million. Compared with the previous year, invested capital increased by CHF 0.1 billion to CHF 1.5 billion, with current ROIC standing at 11.2% (previous year 12.2%).

INVESTMENTS

In the year under review, Flughafen Zürich AG invested CHF 290.1 million in ongoing projects (2017: CHF 239.0 million). Investments in THE CIRCLE, which were higher than the previous year owing to the progress on this building project, contributed in large part to this figure. Further significant investments included the upgrade and extension of the baggage sorting system plus projects for expanding the aircraft stands on the southern side of the airport, and the high-speed taxiways for runway 28.

ASSETS AND FINANCIAL POSITION

As at the end of 2018, invested capital amounted to CHF 3.5 billion and the return on invested capital (ROIC) was 7.4%. Equity remained unchanged at CHF 2.4 billion, resulting in a healthy equity ratio of 55.3% (2017: 55.9%). Due to investments in ongoing projects and international holdings, net debt increased to CHF 146.4 million at the reporting date (2017: CHF 57.9 million).

Starting with an operative cash flow of CHF 538.4 million and year-on-year higher investments of CHF 383.5 million in property, plant and equipment, projects in progress and airport operator projects, the company’s free cash flow fell during the reporting period by CHF 99.8 million to CHF 154.9 million.

FINANCIAL OUTLOOK

TRAFFIC AND REVENUE TREND

Flughafen Zürich AG expects passenger growth of around 3.0% in 2019. Aviation revenue will therefore be higher. A rise in revenue is also anticipated in the Non-aviation segment, with commercial and parking revenue, revenue from facility management and revenue from international business activities all expected to be higher.

OPERATING EXPENSES

Operating expenses will likely increase in 2019, with operating expenses at the Zurich site rising at a slower pace than operating expenses from international business activities.

INVESTMENTS

The company has earmarked a total of CHF 350 to 400 million for investments in ongoing projects in 2019. At around CHF 140 million, the large-scale project THE CIRCLE accounts for the largest amount of capital expenditure. Two other major investment projects currently under way involve the expansion and refurbishment of the baggage sorting system and the renovation of the maintenance workshop. In addition, Flughafen Zürich AG each year invests substantial amounts in numerous other aviation and commercial projects and in maintaining the value of the existing infrastructure.

RESULT

Factoring out the one-off effect in the financial year 2018 and any one-off effects during the current year, earnings before interest, tax, depreciation and amortisation (EBITDA) as well as profit in 2019 are expected to be higher than the previous year.

RISK MANAGEMENT

For Flughafen Zürich AG, risk management is a key factor for successful company management. Comprehensive risk management ensures that risks are approached systematically and given due consideration. It guarantees transparency with respect to all the internal and external risks associated with the company's business activities as well as continuous monitoring and improvement of the risk situation.

RISK MANAGEMENT AND REPORTING TOOL

Zurich Airport's risk management system is the tool used to manage corporate risk and consists of the following components:

- Risk policy objectives and principles
- Risk management organisation
- Risk management process (method for managing risk)
- Risk reporting
- Auditing and review of the risk management system

The risk management organisation forms the backbone of this system and includes the following units and functions:

- **Board of Directors, Management Board and Chief Risk Officer**
  The Board of Directors and Management Board have the overall responsibility under Swiss company law for ensuring the group's existence and profitability. The Board of Directors is responsible for overall oversight of risk management. The Chief Financial Officer also acts as the Management Board's Chief Risk Officer.
- **Risk Management & Insurance department**
  The Risk Management & Insurance department is run by the Risk Manager, who reports to the Chief Risk Officer. This department supports the line units in all matters relating to risk management and is responsible for risk reporting as well as the operation and ongoing development of the risk management system.
- **Line units (divisions and departments)**
  As part of their function, the line units also bear responsibility for risks in their respective division or department and manage them within the framework of the risk management system (risk-owner-concept).
- **Specialist units**
  In consultation with the Risk Management & Insurance department, the specialist units perform specific risk-related cross-divisional functions within the group (liquidity management, occupational safety, information security, fire prevention, contingency planning, etc.).

In risk reporting, Flughafen Zürich AG describes in detail the most important business risks it has identified and assesses the probability of occurrence as well as their potential operational and economic impact. Along with defining responsibilities, a plan of action is drawn up with specified target dates and outlining how the risks can be minimised. The risk management organisation continually monitors implementation of the defined measures. The risk report is presented to the Management Board and the Board of Directors twice a year.

COMPLIANCE MANAGEMENT

Flughafen Zürich AG's compliance management system is another key component of its comprehensive risk management strategy. The aim of compliance management is to systematically identify, understand and comply with the applicable statutory requirements as well as with internal corporate guidelines and ethical principles.

A review of compliance with the relevant laws, guidelines and principles is conducted in around 30 different areas, each of which is supervised by a specialist who is the process owner. Within their areas, process owners are responsible for (1) precautionary measures such as providing information, guidelines and checklists to line managers and individual employees; (2) performing the checks required for compliance audits; and (3) systematic reporting. The ultimate responsibility for compliance with laws, guidelines and principles lies with line management. A broadly based Compliance Steering Committee headed by the Chief Risk Officer monitors consistent and uniform implementation of compliance management procedures.

On behalf of the Chief Risk Officer the risk management organisation produces a comprehensive biannual compliance report based on information provided by the process owners. This report covers all areas and is submitted to the Management Board and the Board of Directors.

CURRENT RISK SITUATION

The current risk situation of Flughafen Zürich AG is characterised primarily by the following risks:

1. LEGAL UNCERTAINTIES

Various domestic or foreign restrictions might prevent Flughafen Zürich AG from fully utilising its infrastructure or cause it to incur additional capital expenditure and costs or generate less revenue. These restrictions include the following:

1.1 ORDINANCE ON AIRPORT CHARGES

Owing to the welcome growth in passenger numbers and the resulting increase in aviation revenues in recent years as well as declining interest rates, a reduction in airport charges is to be expected for the next charging period. On 12 November 2018, FOCA presented its draft proposals for the revision of the Ordinance on Airport Charges that was announced in June 2018. These proposals include a significant increase in transfer payments from the non-regulated airside segment and from road vehicle parking. If the ordinance is changed by the Federal Council as proposed by FOCA, this would have an additional negative impact on the airport charges collected by Flughafen Zürich AG.

1.2 REGULATION GOVERNING THE USE OF SOUTH GERMAN AIRSPACE

The use of south German airspace is presently regulated by an implementing regulation (DVO) issued unilaterally by Germany. On 4 September 2012, the then Swiss Federal Councillor Doris Leuthard and the then German Transport Minister Peter Ramsauer signed the new aviation treaty. The treaty must be ratified by both countries. The two chambers of Switzerland's Parliament have already approved the treaty, but in Germany ratification was halted, and no date has yet been set for ratification there. Germany could also unilaterally change the implementing regulation (DVO), which could lead to additional capacity restrictions for Zurich Airport.

1.3 INVESTMENTS TO REDUCE OPERATIONAL COMPLEXITY

The runway and taxiway layout, the departure and approach routes and a number of operational regulations at Zurich Airport have developed historically and are the product of many political compromises. The operational complexity of the overall system is therefore considerable. After an incident involving two departing aircraft at the runway intersection, in 2012 Flughafen Zürich AG, Skyguide, Swiss and the Swiss Air Force prepared a comprehensive risk report with the assistance of the Federal Office of Civil Aviation (FOCA) and the Department of the Environment, Transport, Energy and Communications (DETEC). It proposed a number of measures aimed at improving safety. Some of these measures have since been implemented or are in the process of being implemented, while others are pending approval by the Federal government. Without implementing these additional measures to improve safety, there is a risk of further capacity restrictions which would consequently have a negative impact on business development.

1.4 NOISE EXPOSURE

In 2015, the Federal Office of Civil Aviation FOCA specified the noise levels permitted for Zurich Airport. Under the Federal Noise Abatement Ordinance, Flughafen Zürich AG is obliged to report annually on aircraft noise emissions. Reasons must be given for any noise exposure above the permitted level and measures for avoiding such infringements in future must be stated. If it is anticipated that noise emissions will greatly exceed the permitted levels in the long term, the relevant departments of the Federal Administration will take the necessary measures. The permitted noise exposure levels are greatly exceeded after 11 p.m. in particular. Flughafen Zürich AG has identified measures to improve the situation for night-time delays and is seeking approval for changes to the permitted noise levels (amendment of the 2014 operating regulations). The SAIP adopted by the Federal Council on 23 August 2017 also extends the night-time noise curve. Nevertheless, on 14 May 2018, in connection with its partial approval of changes to the 2014 operating regulations, FOCA instructed Flughafen Zürich AG to investigate the feasibility of bringing forward the last slots in the evening. The company is required to produce a report within a year setting out the operational feasibility, economic viability and the impact on noise exposure this would have. With its decision of 23 July 2018 on noise exposure reporting for 2016, FOCA limited the declared capacity of Zurich Airport for aircraft landing after 9 p.m. and taking off after 10.20 p.m. which will apply to the allocation of airport slots from the summer 2019 timetable onwards. This decision was challenged and is due to be heard by the Swiss Federal Administrative Court. At the same time, Flughafen Zürich AG was instructed to submit the necessary documentation to FOCA by the end of August 2018 to enable it to commence the process for setting the permitted levels of noise exposure during the night. The company submitted the requisite documents, which FOCA then published for public consultation. Various objections were received. The proceedings are still ongoing at FOCA. If no new night-time noise exposure limits are specified, in all probability it will become necessary to limit flight operations at night because they exceed the permitted levels of noise exposure.

1.5 ZURICH AIRCRAFT NOISE INDEX (ZFI)

In 2007, the Zurich Cantonal Parliament’s counterproposal to a cantonal referendum was accepted. The counterproposal comprises the following two elements:

- Temporary halt: Once the number of flights per year reaches 320,000, the canton will reassess the situation.
- Zurich Aircraft Noise Index (ZFI): A monitoring value to be determined each year will be compared with a guideline figure (47,000 persons) set by the Government Council.

In recent years, the guideline figure of 47,000 persons was exceeded every year. This is largely due to the strong population growth in the region around the airport compared with the year 2000. It is conceivable that the Canton of Zurich, through its representatives on the Board of Directors or through the Swiss Federal government, could demand the implementation of measures that might have a negative impact on the airport's development.

1.6 DISCONTINUATION OF BILATERAL AGREEMENTS WITH THE EU

The popular initiative aimed at capping immigration which was handed in at the end of August 2018 is shedding uncertainty on the continued existence of the Agreement on the Free Movement of Persons, and consequently all bilateral agreements with the EU. In a worst-case scenario, terminating the agreements could result in Switzerland being excluded from the Schengen system. This would result in extraordinary write-offs and additional costs for the company to make the necessary changes to its affected infrastructures. If visa procedures were to become more complex, a drop in demand at Zurich Airport would also have to be expected.

2. DECLINE IN DEMAND

Experience over the past few years has shown that the air transport sector is a growing but also volatile industry that is affected by external events such as economic crises, acts of terrorism or epidemics. Such events could temporarily cause a drop in demand at Zurich Airport. In addition, other external factors such as the political and macro-economic environment could have a negative impact on demand in both the aviation and non-aviation segments at Zurich Airport.

3. INCREASING SAFETY AND SECURITY REQUIREMENTS

Additional safety and security regulations may result in rising costs and reduced revenue or changes in capacity. While some of these higher costs could at least subsequently be offset or refinanced through higher charges, the possibility of other elements having a negative impact on earnings cannot be ruled out.

4. INTERRUPTIONS TO BUSINESS DUE TO OPERATIONAL EVENTS OR NATURAL HAZARDS

Given the complex and tightly interconnected nature of airport operations, they could be severely disrupted by operational events such as accidents or the failure of critical systems. Depending on the scale of the disruption, operations would have to be curtailed or even halted in order to maintain the safety of passengers and airport employees. The extensive airport infrastructure is especially exposed to natural hazards, in particular earthquakes and flooding following heavy precipitation. To minimise the risk, infrastructure and operations are designed to be robust and, where possible, cost-efficient property and business interruption insurance is taken out to cover it.

5. HUB CARRIER

Like any other hub airport, Flughafen Zürich AG depends to a considerable extent on the operational and financial performance of its hub carrier Swiss (and the latter’s parent, Lufthansa). The airline Swiss is Flughafen Zürich AG’s main customer. During the year under review, Swiss accounted for around 53% of the passenger volume (2017: 52%). The airline plays a major role within the Lufthansa Group as far as profits are concerned, so the risk of the hub carrier failing for economic reasons can be considered minor at present. Capacity reductions can never be ruled out, however.

6. NOISE-RELATED COSTS

Under Article 36a of the Civil Aviation Act and the Federal Expropriation Act in connection with Articles 679 and 684 of the Swiss Civil Code, 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 and its corresponding ordinances. According to current legal practice, one of the several 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 the costs related to such claims through air traffic charges (noise-related landing charges or special surcharges on passenger ticket fees). In the interests of transparency, costs and income relating to aircraft noise are additionally presented in a separate statement for the Airport of Zurich Noise Fund.

6.1 REPORTING OF NOISE-RELATED COSTS IN THE FINANCIAL STATEMENTS

6.1.1 Formal expropriations

The rulings by the Swiss Federal Supreme Court in the first half of 2008 on fundamental issues related to formal expropriations enabled Flughafen Zürich AG to reliably estimate the total cost of compensation for formal expropriations for the first time, in spite of the remaining uncertainties regarding the accuracy of this estimate. With further rulings on 8 June 2010 and 9 December 2011, the Swiss Federal Supreme Court definitively set the cut-off date for the foreseeability of an eastern approach as 1 January 1961 and ruled definitively on the method used to calculate a decline in the market value of investment property. In the first half of 2016, the Swiss Federal Supreme Court handed down two rulings in test cases regarding claims for compensation relating to the eastern and southern approach routes. Based on these Swiss Federal Supreme Court rulings and other fundamental issues that have since been decided in a court of final instance, the company undertook a reappraisal of costs for formal expropriations, which in each case led to an adjustment to both the provision for formal expropriations and the intangible asset from the right of formal expropriation.

In the first half of 2018, the Swiss Federal Supreme Court handed down two rulings in test cases regarding cooperative ownership. These court rulings enabled Flughafen Zürich AG to undertake a reappraisal of the outstanding cost of compensation for formal expropriations. Based on the recalculation, the total cost expected in relation to formal expropriations decreased from CHF 385.0 million to CHF 350.0 million. This enabled the provision for formal expropriations as at 30 June 2018 to be reduced by CHF 34.5 million (nominal amount CHF 35.0 million, see note 19, Provision for formal expropriations plus sound insulation and resident protection). At the same time, the intangible asset from the right of formal expropriation was reduced by the same amount (see note 11, Intangible assets).

As at the reporting date, the estimated costs for formal expropriations amounted to CHF 350.0 million (31 December 2017: CHF 385.0 million), of which CHF 72.1 million had already been paid out at that date. The outstanding costs of CHF 277.9 million (nominal amount) are stated at their present value of CHF 275.2 million in the consolidated financial statements for the period ended 31 December 2018.

6.1.2 Sound insulation and resident protection measures
With respect to sound insulation and resident protection measures, FOCA required Flughafen Zürich AG, in connection with its 2014 operating regulations application, to submit an extended sound insulation programme by the end of June 2015. Based on the permitted noise exposure levels specified by FOCA, and taking into account the still pending changes to its 2014 operating regulations, the company duly submitted its 2015 sound insulation programme by this deadline. At its meeting on 22 June 2015, the Board of Directors approved a further CHF 100.0 million of measures in this context in addition to the CHF 240.0 million previously estimated for sound insulation and resident protection.

Flughafen Zürich AG is required to implement sound insulation measures in the area where it claims exemptions from noise limits (emission limit). In this context, the Federal Office of Civil Aviation (FOCA) has initiated a night-time noise abatement procedure. The area with exemptions under the Sectoral Aviation Infrastructure Plan adopted by the Federal Council on 23 August 2017 is to be extended. A provision for further costs of CHF 60.0 million, with a present value of CHF 57.6 million, was recognised in this context as at 30 June 2018 in addition to the cost of CHF 340.0 million previously estimated for sound insulation and resident protection (see note 5, Other income and expenses, and note 19, Provision for formal expropriations plus sound insulation and resident protection).

As at the reporting date, the estimated costs for sound insulation and resident protection measures amounted to CHF 400.0 million (31 December 2017: CHF 340.0 million), of which CHF 249.1 million had already been paid out at that date. The outstanding costs of CHF 150.9 million (nominal amount) are stated at their present value of CHF 148.2 million in the consolidated financial statements for the period ended 31 December 2018.

6.2 RISKS FOR FLUGHAFEN ZÜRICH AG BASED ON NOISE-RELATED ISSUES

The reporting of noise-related costs in the financial statements is a complex matter. In particular the issue of formal expropriations involves significant assumptions and estimates concerning the capitalisation of such costs and the obligation to recognise appropriate provisions. This complexity is attributable to a large variety of relevant legal bases, unclear or pending legal practice and political debate.

Flughafen Zürich AG has received a total of around 20,000 noise-related claims for compensation, of which around 6,700 were still pending at the end of 2018. Almost 1,000 of these cases are currently being examined by the Swiss Federal Assessments Commission.

Depending on future and final-instance legal judgements, including with respect to the southern approaches, noise-related liabilities may in future be subject to substantial adjustments, which would also require adjustments to the noise-related costs recognised as assets and liabilities in the balance sheet. At the present time, it is not possible to reliably estimate the total costs to capitalise as an intangible asset from the right of formal expropriation, the resulting amortisation or the corresponding provision.

Aircraft noise costs are refinanced through charges. The most important charge from a refinancing standpoint up until 1 February 2014 was the separate CHF 5.00 passenger noise charge. Owing to a directive on airport charges issued by FOCA on 14 November 2013, this passenger-related noise supplement was no longer collected as of 1 February 2014 as it can be assumed that the funds of the Airport of Zurich Noise Fund are sufficient to finance the costs currently estimated. Should actual future noise-related costs significantly exceed the estimate, this supplement would have to be levied again over the medium term in order to cover the costs. Aircraft noise charges are still levied.

The consolidated financial statements (under IFRS) and individual financial statements (under CO) could be negatively impacted depending on the amount of effective costs and possible future changes in accounting standards.

6.3 TREATMENT OF NOISE-RELATED MATTERS IN THE CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The noise charges imposed on the basis of the “cost-by-causes principle” as well as the costs for sound insulation and resident protection measures and operating costs relating to aircraft noise are recognised in the income statement.

6.3.1 Formal expropriations

With the award of the operating licence, Flughafen Zürich AG was also granted a right of formal expropriation in respect of property owners exposed to aircraft noise. This right of formal expropriation was granted on condition that the airport operator bears the costs associated with compensation payments and is recognised as an intangible asset at the date when a current obligation arises on the basis of a definitive ruling or when the probable total costs can be estimated on the basis of court rulings in the final instance and therefore a reliable cost estimate as defined in IAS 38.21 becomes possible. The timing of recognition may differ depending on the airport region. At the same time as an intangible asset is recognised at the present value of the expected future payments, an equal amount is recognised as a provision. Any future adjustments to the probable total cost already recognised as assets and liabilities will be reflected on both sides of the balance sheet. The intangible asset is amortised using the straight-line method over the remaining duration of the operating licence (i.e. until May 2051).

To summarise, the significant effects on the consolidated financial statements are as follows:

- Revenue from noise charges will be recognised in the income statement.
- Payments for formal expropriations and for sound insulation and resident protection measures will be charged against the corresponding provisions.
- The intangible asset from the right of formal expropriation will be amortised using the straight-line method over the remaining duration of the operating licence (i.e. until May 2051).
- The unwinding of the discount on the provisions for formal expropriations plus sound insulation and resident protection measures will be recognised in the income statement.
- As before, noise-related operating costs will be borne in full by Flughafen Zürich AG and charged to the Airport of Zurich Noise Fund.

6.3.2 Sound insulation and resident protection measures

The costs for sound insulation and resident protection measures that Flughafen Zürich AG has formally agreed to pay are recognised as a provision as soon as they can be reliably estimated.

6.4 TREATMENT OF NOISE-RELATED MATTERS IN THE FINANCIAL STATEMENTS UNDER THE SWISS CODE OF OBLIGATIONS (CO)

Costs for formal expropriations also qualify as an intangible asset in the financial statements under the Swiss Code of Obligations. They are not capitalised until the date on which the counterparty has acquired an enforceable claim. Amortisation of capitalised costs for formal expropriations is based at a minimum on the consolidated financial statements. Adequate provisions are recognised for liabilities arising from sound insulation and resident protection measures. Any balance of revenue after deduction of noise-related costs (compensation for formal expropriations, sound insulation and resident protection measures, operating costs, financing costs and amortisation) is transferred to the provision for aircraft noise.

CORPORATE GOVERNANCE

Corporate governance forms an important element of Flughafen Zürich AG's corporate policy. It is based on transparency and clearly regulated responsibilities. The company meets the guidelines of SIX Swiss Exchange and those of the Swiss Code of Obligations, and observes the Swiss Code of Best Practice for Corporate Governance recommendations issued by economiesuisse.

GROUP AND CAPITAL STRUCTURES

GROUP STRUCTURE

For details concerning the group operational structure, please see the section on segment reporting. Apart from Flughafen Zürich AG, Kloten (securities no. 31941693, ISIN CH0319416936), which was listed on SIX Swiss Exchange with a market capitalisation of CHF 5.0 billion as at the balance sheet date, the consolidated group does not comprise any other listed companies. However, it does include the following unlisted companies:

Company	Domicile	Share capital	Stake held in %
Flughafen Zürich AG	Kloten	CHF 307,018,750	Parent company
Zurich Airport International AG	Kloten	CHF 100,000	100.0
Zurich Airport International Asia Sdn. Bhd.	Kuala Lumpur	MYR 1.0 million	100.0
Zurich Airport Latin America Ltda.	Rio de Janeiro	BRL 1.8 million	100.0
Concessionária do Aeroporto Internacional de Florianópolis S.A.	Florianópolis	BRL 304 million	100.0
A-port S.A.	Santiago de Chile	CLP 16,139 million	100.0
A-port Chile S.A.	Santiago de Chile	CLP 10,613 million	100.0
Sociedad Concesionaria Antofagasta S.A.	Santiago de Chile	CLP 3,600 million	100.0
Sociedad Concesionaria Iquique S.A.	Santiago de Chile	CLP 600 million	100.0
Sociedad Concesionaria Aeropuerto Diego Aracena S.A.	Santiago de Chile	CLP 10,700 million	100.0
A-port Operaciones S.A.	Santiago de Chile	CLP 1,352 million	99.0
A-port Operaciones Colombia S.A.	Bogotá	COP 100 million	99.0
Unique IDC S.A. de C.V.	Tegucigalpa	HNL 200 million	99.0

CAPITAL STRUCTURE

The group’s ordinary share capital amounts to CHF 307,018,750, which is divided into 30,701,875 fully paid-up registered shares with a nominal value of CHF 10.00 each. All shares have the same dividend entitlements and voting rights (as long as they have been entered in the Share Register accordingly). No approved or conditional capital, no participation or dividend right certificates and no outstanding convertible bonds or options existed as at the balance sheet date.

For information concerning the distribution of shares to employees (no options are distributed), please refer to the Financial report, Consolidated financial statements according to IFRS, Notes to the consolidated financial statements, note 3, Personnel expenses.

The changes in share capital, reserves and available earnings (financial statements according to the provisions of the Swiss Code of Obligations) during the past three years are shown below:

	31.12.2018	31.12.2017	31.12.2016
Share capital	307,019	307,019	307,019
Legal capital reserves			
Capital contribution reserves	215,256	313,499	411,744
Legal retained earnings			
General legal retained earnings	42,370	42,370	42,370
Voluntary retained earnings	109,810	109,838	109,470
Available earnings			
Profit brought forward	1,316,090	1,107,409	933,342
Profit for the year	298,729	309,995	272,312
Treasury shares	–341	–458	–855
Total equity	**2,288,933**	**2,189,672**	**2,075,402**

SHAREHOLDER STRUCTURE AND VOTING RIGHTS

MAJOR SHAREHOLDERS

As at 31 December 2018, the Canton of Zurich held 33.33% plus one share, and the City of Zurich held 5% of the company's shares/voting rights. There were no other shareholders entered in the Share Register whose holdings exceeded 3% of the total number of shares with voting rights. Information about shareholdings in excess of or below the thresholds specified in Article 120 of the Financial Markets Infrastructure Act (FMIA), published during the reporting period can be found on the publication platform of the Disclosure Office of SIX Swiss Exchange. There are no crossholdings and no shareholder agreements of which the company is aware.

CHANGE IN CONTROL

The company's Articles of Incorporation contain an opting-up clause which stipulates that, in the event that the threshold at which an offer is required in accordance with the provisions of the Swiss Stock Exchange Act is exceeded, it shall be set at 49%. No clauses exist regulating a change of control in favour of members of the Board of Directors or Management Board.

LIMITATION OF TRANSFERABILITY OF SHARES/VOTING RIGHTS AND NOMINEE REGISTRATIONS

Registration with voting rights is limited to 5% of the share capital. This limit applies both to individual investors and groups of shareholders, with the exception of the Canton of Zurich (limit = 49%) and the City of Zurich (limit = 10%). Other statutory registration limits apply to guarantee proof of Swiss control, should such proof be required by special laws or double taxation agreements. Nominees are exclusively registered as shareholders without voting rights. Exceptions to these registration limits may be granted by the Board of Directors at its discretion, specifically in association with contributions in kind, participations, mergers and easing of tradability of shares on the stock market. No exceptions were granted during the reporting period. Limitations of transferability are set forth in Article 6 of the company's Articles of Incorporation. They can be amended by a resolution of the General Meeting of Shareholders by a two-thirds majority of represented votes.

VOTING RIGHTS AT THE GENERAL MEETING OF SHAREHOLDERS

Entries in the share register are normally made up to one week before the General Meeting of Shareholders. With respect to the convening of the General Meeting of Shareholders and the inclusion of items on the agenda, no statutory regulations exist that deviate from the relevant legal provisions. In accordance with Article 699 para. 3 of the Swiss Code of Obligations, shareholders representing shares with a par value of CHF 1.0 million may request that items be included on the agenda. In accordance with Article 12 para. 3 of the company's Articles of Incorporation, the relevant requests must be submitted in writing to the Board of Directors of the company together with proof of entitlement, an exact description of the requested item and a specifically formulated resolution proposal. Only requests that are received by the company in good time, i.e. at least 60 days before the General Meeting, can be considered.

In accordance with the company's Articles of Incorporation, any shareholder may arrange to be represented at the General Meeting by another shareholder entered in the Share Register, who shall present a written power of attorney, or by an independent proxy. Members of the Board of Directors and Management Board may represent other shareholders provided this does not constitute institutionalised representation. In accordance with Article 14 para. 3 of the company's Articles of Incorporation, the Board of Directors may draw up rules of procedure covering participation in and representation at the General Meeting of Shareholders and, in particular, make detailed provision for the issue of instructions to the independent proxies. It shall ensure that the shareholders are also able to issue electronic powers of attorney and instructions to the independent proxy.

In accordance with the statutory rules, resolutions of the General Meeting of Shareholders are generally passed by a majority of the votes cast. A qualified majority in accordance with Article 704 of the Swiss Code of Obligations is required for the following cases in addition to those defined in the above legal provisions:

- Amendments to the Articles of Incorporation
- Easing or elimination of limitations with respect to the transferability of registered shares
- Conversion of registered shares into bearer shares

BOARD OF DIRECTORS

ELECTION AND TERM OF OFFICE

Members of the Board of Directors are elected by the General Meeting of Shareholders for a term of office of one year. They may stand for re-election, although members of the Board of Directors are required to step down for age reasons at the General Meeting of Shareholders that is held in the year in which they turn 70.

In accordance with Article 762 of the Swiss Code of Obligations, the Canton of Zurich has a statutory entitlement to appoint three of seven or eight, or four of nine persons to the Board of Directors. In the reporting period, the five members to be elected by the General Meeting of Shareholders were elected by individual vote.

MEMBERS

ANDREAS SCHMID

- Chairman of the Board of Directors since the 2000 General Meeting of Shareholders.
- Swiss citizen, born in 1957, MA (Law); Member of the Movenpick Executive Board of Management from 1993 to 1997 and then CEO of Jacobs AG (until 2000); CEO of Barry Callebaut AG (until mid-2002), Chairman of the Board of Directors of Barry Callebaut AG from 1999 to 2005, Vice-Chairman of the Board of Directors of Barry Callebaut AG since December 2005 and Member of the Board of Directors since December 2014; Chairman of the Board of Oettinger Davidoff Group between 2007 and 2017 and Chairman of the Board of Directors Helvetica Capital since 2016.
- Other activities and commitments: Member of the Board of Directors of Radisson Hospitality AB and of Steiner AG, Chairman of the Foundation Board of Avenir Suisse.

VINCENT ALBERS

- Member of the Board of Directors since May 2015.
- Swiss citizen, born in 1956, degree in mechanical engineering from the Federal Institute of Technology (ETH) and MSc in management from Stanford Graduate School of Business; mechanical engineer at Amdahl Corp., Sunnyvale and Fujitsu Ltd., Tokyo; Director of Albers & Co AG, Zurich since 1986, responsible since 1992 for the Real Estate division, Partner since 1993.
- Other activities and commitments: CEO of Hardturm AG, Member of the Board of Directors of Schoeller Textil AG.

GUGLIELMO BRENTEL

- Member of the Board of Directors since 2014 General Meeting of Shareholders.
- Swiss citizen, born in 1955, commercial apprenticeship, Swiss federal diploma as administration officer, Swiss Hospitality Management School in Lausanne with Swiss federal diploma; various positions in advisory services for the hotel and tourism sector since 1989; founder, owner and managing director of H&G Hotel Gast AG.
- Other activities and commitments: none.

JOSEF FELDER

- Member of the Board of Directors since 2017 General Meeting of Shareholders.
- Swiss citizen, born in 1961, Swiss Certified Expert for Accounting and Controlling and Executive MBA Harvard Business School; various positions at Crossair AG between 1989 and 1998, culminating in deputy director and divisional head, then as CEO of Flughafen-Immobilien-Gesellschaft FIG (1998 to 2000) and Flughafen Zürich AG (2000 to 2008); member of the Boards of Directors at various companies since 2009.
- Other activities and commitments: Vice Chairman of the Board of Directors of Luzerner Kantonalbank AG, Chairman of the Board of Directors of Stockli Swiss Sports AG and Flaschenpost Service AG, Member of the Boards of Directors of HTC Corporation, AMAG

Automobil- und Motoren AG, Amag Group AG, AMAG Import AG, Careal Property Group AG and Edelweiss Air, Chairman of the Foundation Board of Pro Juventute, Member of the Board of swissVR.

STEPHAN GEMKOW

- Member of the Board of Directors since 2017 General Meeting of Shareholders.
- German citizen, born in 1960, graduated in business management from the University of Paderborn and St. Olaf College Minnesota; business consultant at BDO Deutsche Warentreuhand AG (1988 to 1990) and, from 1990, various management roles at Deutsche Lufthansa AG, between 2006 and 2012 Chief Financial Officer and Member of the Executive Board; Chairman of the Board of Franz Haniel & Cie. GmbH since 2012.
- Other activities and commitments: Chairman of the Supervisory Board of Takkt AG, Member of the Board of Directors of JetBlue Airways Corporation and of Amadeus IT Group S.A.

CORINE MAUCH

- Member of the Board of Directors since 2011 General Meeting of Shareholders.
- Swiss citizen, born in 1960, degree in agr. engineering from the Federal Institute of Technology (ETH); professional experience in research (1993–2002) and political studies (2002–2008) in the fields of environment, transport, energy and sustainable development. Political activity as a member of the City Parliament of Zurich (1999–2009), Mayor of Zurich since 2009.
- Other activities and commitments: Member of the Greater Zurich Area Foundation Board, Member of the Metropolitan Council of the Metropolitan Conference Association of Zurich, Deputy President of the Swiss Union of Cities and Towns, Member of the Steering Committee of the Association of Mayors of the Canton of Zurich, Member of the Technopark Zurich Foundation Board, Member of the Foundation Board of Switzerland Innovation, Zurich, Member and Sponsor of the DigitalSwitzerland Association.

EVELINE SAUPPER

- Member of the Board of Directors since May 2015.
- Swiss citizen, born in 1958, PhD (Law); attorney-at-law and federally qualified tax expert; degree from the University of St. Gallen; positions in tax and company law at Homburger AG since 1985, from 1994 to 2014 as Partner and from 2014 to 2017 as “of counsel”; own practice since 2017.
- Other activities and commitments: Member of the Boards of Directors of Georg Fischer AG, Staubli Holding AG, Clariant AG, Tourismus Savognin Bivio Albula AG and Hoval AG.

CARMEN WALKER SPÄH

- Member of the Board of Directors since July 2015.
- Swiss citizen, born in 1958, MA (Law); attorney-at-law, head of Legal Services and deputy head of the Building Inspectorate of the City of Winterthur (1998–2000); independent attorney (2000–2015); politically active as a Member of the Cantonal Parliament (2002–2015) and since 2015 as Government Councillor and Chair of the Department for Economic Affairs of the Canton of Zurich.
- Other activities and commitments: President of the "Greater Zurich Area" Foundation Board; Member of the Board of Directors of MCH Group AG; Member of the Board of the Swiss Conference of Cantonal Directors of Finance, the Conference of Cantonal Directors of Public Transport, the Conference of Directors of Public Transport for the Zurich Region and Chairman of the ZVV Transport Council; Member of the Swiss Conference of Directors of Building, Planning and Environmental Protection, Member of the Metropolitan Council of the Metropolitan Conference of Zurich, President of the Gotthard Komitee, President of the Innovationspark Zurich Foundation Board, Member of the Swiss Innovation Park Foundation Board, Member of the Technopark Foundation Board.

None of the members of the Board of Directors holds an executive position at Flughafen Zürich AG, and none was a member of the Management Board of Flughafen Zürich AG or any of its group companies during the three financial years prior to the period under review. As at the reporting date, there were no business relationships between members of the Board of Directors or the entities they represent and Flughafen Zürich AG that were deemed significant and thus worthy of mention.

According to Article 19 of the company's Articles of Incorporation, the number of additional mandates that members of the Board of Directors are permitted to hold in the most senior managerial or administrative organs of legal entities outside the scope of consolidation of the company is restricted to five mandates at listed companies and ten mandates at unlisted companies, and to an additional ten mandates at other legal entities entered in the Commercial Register.

INTERNAL ORGANISATION

CHAIRMAN OF THE BOARD OF DIRECTORS

Andreas Schmid (elected by the General Meeting of Shareholders for one year at a time)

VICE CHAIRWOMAN OF THE BOARD OF DIRECTORS

Eveline Saupper

The Board of Directors has formed the following committees:

AUDIT & FINANCE COMMITTEE

Members
Josef Felder (Chairman), Stephan Gemkow, Carmen Walker Späh, Andreas Schmid

Duties
This committee is responsible for the close supervision of the annual accounts and the monitoring of compliance with the accounting policies, the evaluation of financial reporting and auditing activities, the assessment of findings obtained from audits and recommendations by the auditors, the definition of the group's financing policy and an examination of business transactions of special importance.

NOMINATION & COMPENSATION COMMITTEE

Members
Eveline Saupper (Chairwoman), Vincent Albers, Guglielmo Brentel, Andreas Schmid (are elected by the General Meeting of Shareholders for one year at a time)

Duties
This committee deals with all issues relating to the nomination and/or removal of members of the executive management of the Group, including their compensation and questions relating to succession planning. It formulates the principles of the Group's personnel and compensation policies and ensures that these are duly complied with. It is also responsible for assessing any potential conflicts of interest on the part of members of the Board of Directors or Management Board.

PUBLIC AFFAIRS COMMITTEE

Members
Carmen Walker Späh (Chairwoman), Eveline Saupper, Corine Mauch, Andreas Schmid

Duties
The committee monitors political dossiers that are relevant for Zurich Airport and acts as an advisory panel for political issues of strategic importance to the company.

ORGANISATION AND PARTICIPANTS

The executive bodies of Flughafen Zürich AG convene meetings as required. During the reporting period the Board of Directors held nine meetings with an average duration of around six hours, while the Audit & Finance Committee held three meetings, the Nomination & Compensation Committee and the Public Affairs Committee two meetings each with an average duration of two hours.

The committees approve recommendations and submit proposals to the Board of Directors, and order clarifications to be carried out by internal or external offices. However, the committees do not pass any final, substantive resolutions.

The Chairman and members of the Management Board and the General Secretary are regularly invited to participate in meetings of the Board of Directors. The CEO, CFO, Head of Controlling & Accounting, the internal auditor, the auditor in charge at the external auditing firm and the General Secretary are invited to attend meetings of the Audit & Finance Committee. The CEO, Head of Human Resources and the General Secretary are invited to attend meetings of the Nomination & Compensation Committee, and the CEO, COO, Head of Public Affairs and the General Secretary are invited to attend meetings of the Public Affairs Committee.

COMPETENCY REGULATIONS

Based on the Articles of Incorporation, the Board of Directors has issued a set of organisational regulations in accordance with the provisions of Article 716b of the Swiss Code of Obligations. Alongside the duties that are non-delegable by law, the Board of Directors has retained numerous fundamental strategic competencies, in particular those associated with the rights and obligations arising from federal civil aviation concessions, specifically deciding on significant licence applications, major budget approval requests, petitions for amendments to operating regulations and modifications of fees and charges, while entrusting the Management Board with the general management of the company.

INFORMATION AND CONTROLLING TOOLS

This tool encompasses traffic developments, marketing activities, non-aviation business, personnel controlling, balance sheet management and project information. The Management Board reports to the Board of Directors by means of monthly updates via the Management Information System. Comprehensive financial and business reports are also prepared on a quarterly basis and a report on substantial business risks and the compliance situation every six months. The Board of Directors is kept informed about anticipated developments by means of rolling long-term planning.

In consultation with the Audit & Finance Committee the external auditors EY (Ernst & Young AG) reviewed the internal control system as part of the interim audit and gained an overview of the project work in Brazil during an on-site visit. In the reporting period, Internal Audit, which was set up by management as an independent entity to help the Board of Directors and the Audit & Finance Committee perform their duty of overall supervision, conducted reviews of – among other things – the handling of monetary transactions by the Service & Information Desk and the IT authorisation process. Follow-up activities to previous audits also took place. Internal Audit reports directly to the Chairman of the Audit & Finance Committee.

MANAGEMENT BOARD

MEMBERS

STEPHAN WIDRIG

- Chief Executive Officer (CEO).
- Swiss citizen, born in 1972, MA (Business Economics), University of St. Gallen; business consultant at Arthur Andersen (1997 to 1999); joined Flughafen Zürich AG (former Flughafen-Immobilien-Gesellschaft, FIG) in 1999 with special responsibility for real estate operations; Chief Financial and Commercial Officer at Bangalore International Airport Ltd. (BIAL), Bengaluru, India (2005 to 2008).
- Returned to Flughafen Zürich AG in 2008 as Member of the Management Board; CEO since 1 January 2015.
- Other activities and commitments: none.

LUKAS BROSI

- Chief Finance Officer (CFO).
- Swiss citizen, born 1979, degree in business economics; various roles in the corporate consulting division at USB AG (2000 to 2009); joined Flughafen Zürich AG in 2009 as Group Treasurer, steadily acquiring a wider role and more responsibility, including deputising for the CFO.
- Became CFO and assumed his position on the Management Board in February 2017.
- Other activities and commitments: none.

STEFAN GROSS

- Chief Commercial Officer (CCO).
- Swiss citizen, born in 1969, studied business administration; managerial positions at IKEA in Switzerland, Australia, Germany and Russia (1996–2010); shopping centre management roles for the Federation of Migros Cooperatives (2010–2015).
- Joined Flughafen Zürich AG in February 2016.
- Other activities and commitments: none.

DANIEL SCHEIFELE

- Chief Real Estate Officer (CREO).
- Swiss citizen, born in 1962. PhD in civil engineering from the Federal Institute of Technology (ETH) and completed Senior Executive Programme in Advanced Management at London Business School; project management and planning/realisation of large infrastructure and real estate projects at Rosenthaler & Partner and at Karl Steiner AG; thereafter various management roles in project development and general contracting at Batigroup, Losinger, Steiner AG and Strabag AG.

- Joined Flughafen Zürich AG in April 2016.
- Other activities and commitments: none.

STEFAN TSCHUDIN

- Chief Operations Officer (COO).
- Swiss citizen, born 1968, MA (Law) and qualified airline pilot; worked as a legal consultant at a law firm and in court (1994 to 1997), as an airline pilot and flying instructor for Swissair (1997 to 2002) and as a legal advisor at PFS Pension Fund Services (2002 to 2006); joined Flughafen Zürich AG in 2007 as a lawyer and aviation specialist in charge of approval processes.
- Became COO and assumed his position on the Management Board in October 2017.
- Other activities and commitments: none.

Stefan Tschudin, Stephan Widrig, Lukas Brosi, Daniel Scheifele and Stefan Gross (l-r)

In the year under review there were no management agreements associated with the assignment of management duties to third parties.

According to Article 19 of the company's Articles of Incorporation, the number of additional mandates that members of the Management Board are permitted to hold in the most senior managerial and administrative organs of legal entities outside the scope of consolidation of the company is restricted to one mandate at listed companies and five mandates at unlisted companies, and to an additional five mandates at other legal entities entered in the Commercial Register.

REMUNERATION, PARTICIPATION AND LOANS

The rules relating to the remuneration of the Board of Directors and the Management Board, which are based on Art. 25 ff. of the Articles of Incorporation, and the remuneration paid in the reporting period are shown in the separate Remuneration Report.

AUDITORS

The audit mandate is awarded each year by the General Meeting of Shareholders. The current auditors Ernst & Young AG assumed their mandate during the year under review. The current auditor in charge, Daniel Zaugg, has been responsible for this mandate since 2018, which is limited by law to a period of seven years.

The fee charged by the current auditors for the audit in the year under review amounted to CHF 256,300. Smaller fees were charged by Ernst & Young AG for other services (excluding tax consultancy and legal or transaction-related advice).

In 2017 the fee charged by the previous auditors KPMG AG for the audit amounted to CHF 287,400. For additional services outside the audit mandate (audit-related services) the auditors charged a total of CHF 23,100. In terms of non-audit-related services CHF 101,300 was charged for tax consultancy and CHF 30,800 was charged for other advisory services.

The Audit & Finance Committee is responsible for monitoring and supervising the external audit. It deals with the formulation and approval of the integrated audit planning, which includes the plans for both the external and the internal audits. Moreover, the Audit & Finance Committee evaluates and analyses the respective audit reports and approves the fees for the external audit.

The auditors provide a written report on the findings of the agreed audit procedures for the Interim Report and the results of the interim audit and the end-of-year audit. The auditor in charge at the auditing firm attends the meetings of the Audit & Finance Committee.

INFORMATION POLICY

Shareholders regularly receive information about current events and developments in the Interim Report and Annual Report, and in the form of ad-hoc news flashes. Ad-hoc messages published by the company can be read online. Persons interested in these messages can register on the electronic distribution list for ad-hoc messages.

For further information, please see Investor Relations.

REMUNERATION REPORT

The following Remuneration Report describes the principles of the remuneration policy at Flughafen Zürich AG as well as the associated decision-making powers and the components of remuneration.

1. REMUNERATION POLICY AT FLUGHAFEN ZÜRICH AG

1. FOUNDATIONS AND PRINCIPLES

At Flughafen Zürich AG, the rules governing remuneration are based on the corporate and capital market law requirements of the Swiss Code of Obligations, the Ordinance against Excessive Compensation in Stock Exchange Listed Companies and SIX regulations as well as the company's Articles of Incorporation (Art. 25 ff.) and any resolutions and rules issued on the basis of these Articles.

The remuneration philosophy of Flughafen Zürich AG is geared to a corporate strategy oriented toward sustainable success. Market-based, performance-oriented remuneration is intended to create the conditions for recruiting and retaining qualified, committed employees in a competitive labour market. The remuneration system should be simply structured, clear and transparent. The basic structure of the company's existing remuneration system has been unchanged for a long time; over the years there have merely been adjustments of individual aspects of it.

2. COMPONENTS AND METHODS OF DETERMINATION

For the remuneration of members of the Board of Directors
Remuneration of active members of the Board of Directors is based on an annual lump sum plus payments for attending meetings.

The applicable amounts are specified at the judgement of the Board of Directors as proposed by the Nomination & Compensation Committee. They remain valid for an indefinite period, i.e. until they are amended by a new resolution, if necessary. Additionally, the company assumes the payment of all statutory social security and pension funds contributions due on these amounts. There are no bonus or participation programmes for members of the Board of Directors.

For the remuneration of members of the Management Board
Remuneration of members of the Management Board is based on individual employment contracts and comprises a fixed component (fixed salary and benefits) and a variable performance component plus employer contributions to social security and pension funds. Two thirds of the variable component is paid out in cash and one third in the form of shares in the company that are blocked for a period of four years, which ensures that the incentives include an element oriented to long-term perspectives.

The fixed component is determined on a discretionary basis, and the variable component is based on the degree to which the target for the company’s success set by the Board of Directors for the relevant financial year was achieved. EBIT according to the budget (excluding the influence of aircraft noise) has been adopted as the target. The target bonus proposed for 100% achievement of the target amounts to 100% of the fixed salary for the CEO and 50% of the fixed salary for the other members of the Management Board. In the event that the target is exceeded, variable remuneration is limited to 150% of the target bonus. If the achievement of the target drops below 70%, no variable remuneration is paid.

The amounts concerned are set by the Board of Directors as proposed by the Nomination & Compensation Committee. Members of the Management Board do not participate or have a say in these decisions of the Board of Directors.

3. APPROVAL BY THE GENERAL MEETING OF SHAREHOLDERS

Each year, the General Meeting of Shareholders holds a binding vote on the aggregate amount of remuneration for the Board of Directors and the Management Board. On the basis of Article 26 of the company’s Articles of Incorporation, this vote is held prospectively; that is, the maximum aggregate amounts which could be paid to the members of the Board of Directors and the Management Board during the following reporting period are submitted to the General Meeting of Shareholders for approval.

In accordance with Article 26 para. 2 of the Articles of Incorporation, an additional sum of 30% of the approved aggregate amount is available as necessary for the remuneration of any subsequently nominated members of the Management Board (per additional member); this sum does not require the approval of the General Meeting of Shareholders.

As the amounts actually to be paid out depend in part on a consolidated result not yet known when these amounts are approved, this prospective method of approval requires that the theoretical maximum amounts be used by the General Meeting of Shareholders as a basis for their approval decisions. The remuneration actually paid out for a specific reporting period will be stated the following year in the Remuneration Report, which will be presented to the General Meeting of Shareholders for consultation.

2. REMUNERATION PAID

The following table shows the remuneration that was actually paid for the given financial year:

1. REMUNERATION OF THE BOARD OF DIRECTORS

a) for the reporting period (2018):

(CHF)		Remuneration for members of the Board of Directors	Remuneration for attending board meetings	Remuneration for committee membership	Remuneration for committee meetings	Social security contributions	Total
Recipient	**Function**						
Andreas Schmid	Chairman	225,000	22,500	15,000	30,000	75,942	368,442
Vincent Albers	Member	85,000	22,500	5,000	12,500	18,223	143,223
Guglielmo L. Brentel	Member	97,301	25,756	5,723	42,927	0	171,707
Josef Felder	Member; Chairman Audit & Finance Committee	97,301	25,756	11,447	8,585	0	143,089
Stephan Gemkow	Member	85,000	22,500	5,000	7,500	17,494	137,494
Corine Mauch	Member	9,562	22,500	563	5,000	5,485	43,110
Eveline Saupper	Vice Chairwoman; Chairwoman Nomination & Compensation Committee	100,000	22,500	15,000	10,000	21,386	168,886
Carmen Walker Späh	Member; Chairwoman of the Public Affairs Committee	0	0	0	0	0	0
Total		**699,164**	**164,012**	**57,733**	**116,512**	**138,530**	**1,175,951**

The following lump-sum payments were made:	
to the Department for Economic Affairs of the Canton of Zurich (as part of the remuneration due to Carmen Walker Späh)	130,000
to City of Zurich (as part of the remuneration due to Corine Mauch)	79,875
Total	**1,385,826**
Total amount approved by the General Meeting of Shareholders	1,600,000

b) for the comparative period (2017):

(CHF)		Remuneration for members of the Board of Directors	Remuneration for attending board meetings	Remuneration for committee membership	Remuneration for committee meetings	Social security contributions	Total
Recipient	**Function**						
Andreas Schmid	Chairman	225,000	22,500	15,000	40,000	41,868	344,368
Vincent Albers	Member	85,000	22,500	5,000	17,500	18,951	148,951
Guglielmo L. Brentel	Member	97,301	25,756	7,631	28,618	0	159,306
Josef Felder 1)	Member; Chairman Audit & Finance Committee	64,867	17,171	7,632	5,724	0	95,394
Stephan Gemkow 1)	Member	56,667	7,500	3,333	0	9,840	77,340
Corine Mauch	Member	19,597	12,500	1,153	2,500	5,212	40,962
Eveline Saupper	Vice Chairwoman; since 20 April 2017: Chairwoman Nomination & Compensation Committee	100,000	20,000	13,333	15,000	21,496	169,829
Kaspar Schiller 2)	Member; until 20 April 2017: Chairman Nomination & Compensation Committee	31,298	8,285	3,682	5,523	0	48,788
Carmen Walker Späh	Member; Chairwoman of the Public Affairs Committee	0	0	0	0	0	0
Total		**679,730**	**136,212**	**56,764**	**114,865**	**97,367**	**1,084,938**

The following lump-sum payments were made:	
to the Department for Economic Affairs of the Canton of Zurich (as part of the remuneration due to Carmen Walker Späh)	130,000
to City of Zurich (as part of the remuneration due to Corine Mauch)	69,250
Total	**1,284,188**
Total amount approved by the General Meeting of Shareholders	1,600,000

1) Since 20 April 2017.
2) Until 20 April 2017.

No severance payments or other long-term remuneration payments were made in 2017 or 2018.

2. REMUNERATION OF THE MANAGEMENT BOARD

a) for the reporting period (2018):

(CHF)	Salary	Bonus (cash) 1)	Bonus (shares) 1)	Pension and social insurance expenses 2)	Miscellaneous	Total CHF	Number of shares 3)	Share price (CHF) 3)
Recipient								
Stephan Widrig (CEO)	400,000	320,100	159,900	176,845	26,994	1,083,839	984	162.50
Other members of the Management Board	1,150,000	460,225	229,775	434,799	89,029	2,363,828	1,414	162.50
Total	**1,550,000**	**780,325**	**389,675**	**611,644**	**116,023**	**3,447,667**	**2,398**	

Total amount approved by the General Meeting of Shareholders	4,400,000		

1) Allocation is rounded to whole shares, and any remainder is added to the cash component. This may result in minor differences between the cash and the share components, but the overall bonus remains unchanged.
2) Pension and social insurance expenses include contributions to supplementary retirement insurance, as well as employer's contributions to social security and staff benefit schemes.
3) The bonus shares indicated above are based on the share price as at the end of the year. The definitive number of shares is calculated on the basis of the share price at the payment date.

Remuneration of members of the Management Board was effected as shown in the above table. The bonus (cash and share components) is accrued for the period under review and paid out in the spring of the following year. The aggregate variable remuneration (cash and share components of the bonus) amounts to between 60% and 120% of the fixed salary for individual members of the Management Board. Bonus shares are blocked for a period of four years (see also “Financial report”, “Consolidated financial statements according to IFRS”, “Notes to the consolidated financial statements”, note 3, Personnel expenses). No long-term remuneration or severance payments were made in 2018.

b) for the comparative period (2017):

(CHF)	Salary	Bonus (cash) 1)	Bonus (shares) 1)	Pension and social insurance expenses 2)	Miscellaneous	Total CHF	Number of shares	Share price (CHF)
Recipient								
Stephan Widrig (CEO)	400,000	325,482	162,518	180,539	26,994	1,095,533	792	205.20
Other members of the Management Board	1,170,834	464,760	246,240	461,633	98,387	2,441,854	1,200	205.20
Total	**1,570,834**	**790,242**	**408,758**	**642,172**	**125,381**	**3,537,387**	**1,992**	
Total amount approved by the General Meeting of Shareholders						4,400,000		

1) The breakdown of the bonus into cash and equity components has been changed slightly compared with the information in last year’s Remuneration Report. This is because the bonus shares were rounded to whole shares at the time of the distribution, and the remaining amount was allocated to the cash component.
2) Pension and social insurance expenses include contributions to supplementary retirement insurance, as well as employer's contributions to social security and staff benefit schemes.

3. LOANS, ADVANCES, NON-MARKET-BASED REMUNERATION

No loans or advances were granted to members of the Board of Directors or the Management Board in 2018 or 2017, nor was non-market-based remuneration paid to parties related to members of the Board of Directors or the Management Board during these years.

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To the General Meeting of
Flughafen Zürich AG, Kloten

Zurich, 7 March 2019

Report of the statutory auditor on the remuneration report

We have audited the remuneration report of Flughafen Zürich AG for the year ended 31 December 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in section «2. Remuneration paid» of the remuneration report.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility
Our responsibility is to express an opinion on the remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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

Opinion
In our opinion, the remuneration report for the year ended 31 December 2018 of Flughafen Zürich AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Daniel Zaugg
Licensed audit expert
(Auditor in charge)

Daniel Lanfranconi
Licensed audit expert

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO IFRS

CONSOLIDATED INCOME STATEMENT

(CHF 1,000)	Notes	2018	2017
Aviation revenue	(2)	656,667	624,241
Non-aviation revenue	(2)	496,230	412,884
Total revenue		**1,152,897**	**1,037,125**
Personnel expenses	(3)	–211,483	–201,458
Police and security		–121,222	–119,647
Energy and waste		–21,245	–18,792
Maintenance and material		–38,770	–38,005
Other operating expenses	(4)	–54,754	–51,571
Sales, marketing and administration		–45,375	–38,462
Capitalised expenditure and other income	(5)	15,470	19,750
Expenses for construction projects and other expenses	(5)	–104,539	–5,300
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**570,979**	**583,640**
Depreciation and amortisation		–244,452	–243,741
Earnings before interest and tax (EBIT)		**326,527**	**339,899**
Finance costs	(6)	–27,147	–24,131
Finance income	(6)	4,083	5,807
Share of profit or loss of associates	(12)	–4,329	–3,091
Gain on disposal of assets held for sale	(7)	0	36,293
Profit before tax		**299,134**	**354,777**
Income tax expense	(8)	–61,293	–69,250
Profit		**237,841**	**285,527**
Profit attributable to shareholders of Flughafen Zürich AG		237,832	285,225
Profit attributable to non-controlling interests		9	302
Basic earnings per share (CHF)	(17)	7.75	9.29
Diluted earnings per share (CHF)	(17)	7.75	9.29

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(CHF 1,000)	Notes	2018	2017
Profit		**237,841**	**285,527**
Other comprehensive income			
Adjustments to fair value of available-for-sale securities		0	264
Transfer to income statement of cumulative foreign exchange differences relating to the disposal of associates		0	2,876
Foreign exchange differences		–10,703	–559
Items that are or may be reclassified subsequently to profit or loss		**–10,703**	**2,581**
Remeasurement of defined benefit liability, net of income tax	(22)	–10,145	50,207
Items that will never be reclassified to profit or loss		**–10,145**	**50,207**
Other comprehensive income, net of income tax		**–20,848**	**52,788**
Total comprehensive income		**216,993**	**338,315**
Comprehensive income attributable to shareholders of Flughafen Zürich AG		216,987	338,409
Comprehensive income attributable to non-controlling interests		6	–94

CONSOLIDATED BALANCE SHEET

(CHF 1,000)	Notes	31.12.2018	31.12.2017
Assets			
Property, plant and equipment	(9)	2,615,954	2,658,652
Investment properties	(10)	307,054	211,907
Intangible asset from right of formal expropriation	(11)	93,737	131,682
Investments in airport operator projects	(11)	125,632	75,193
Other intangible assets	(11)	17,885	15,012
Investments in associates	(12)	12,323	13,518
Non-current financial assets of Airport of Zurich Noise Fund	(13)	377,241	360,525
Non-current fixed-term deposits	(16)	37,500	41,667
Other non-current financial assets		6,326	8,352
Deferred tax assets	(21)	1,950	0
Non-current assets		**3,595,602**	**3,516,508**
Inventories		10,398	10,206
Current financial assets of Airport of Zurich Noise Fund	(13)	21,967	76,578
Other current financial assets		387	0
Trade receivables	(14)	102,024	109,902
Other receivables and prepaid expenses	(15)	89,217	40,920
Current tax assets		685	0
Current fixed-term deposits	(16)	149,167	230,000
Cash and cash equivalents	(16)	395,872	314,615
Current assets		**769,717**	**782,221**
Total assets		**4,365,319**	**4,298,729**
Equity and liabilities			
Share capital	(17)	307,019	307,019
Treasury shares		–342	–459
Capital reserves		298,182	396,453
Fair value reserve		0	4,868
Translation reserve		–16,370	–5,670
Other retained earnings		1,826,317	1,698,883
Equity attributable to shareholders of Flughafen Zürich AG		**2,414,806**	**2,401,094**
Equity attributable to non-controlling interests		47	41
Total equity		**2,414,853**	**2,401,135**
Non-current financial liabilities	(18)	1,085,470	1,076,560
Non-current provisions for formal expropriations plus sound insulation and resident protection	(19)	392,097	369,227
Deferred tax liabilities	(21)	44,284	61,687
Employee benefit obligations	(22)	155,355	137,238
Non-current liabilities		**1,677,206**	**1,644,712**
Trade payables		53,625	39,846
Current financial liabilities	(18)	42,657	4,719
Current provisions for formal expropriations plus sound insulation and resident protection	(19)	31,256	50,120
Current tax liabilities		33,963	32,299
Other current liabilities, accruals and deferrals	(23)	111,759	125,898
Current liabilities		**273,260**	**252,882**
Total liabilities		**1,950,466**	**1,897,594**
Total equity and liabilities		**4,365,319**	**4,298,729**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(CHF 1,000)	Share capital	Treasury shares	Capital reserves	Fair value reserve	Translation reserve	Other retained earnings	Equity attributable to shareholders of Flughafen Zürich AG	Equity attributable to non-controlling interests	Total equity
Balance as at 31 December 2017	**307,019**	**–459**	**396,453**	**4,868**	**–5,670**	**1,698,883**	**2,401,094**	**41**	**2,401,135**
Effect of initial application of IFRS 9, net of income tax				–4,868		1,061	**–3,807**		**–3,807**
Balance as at 1 January 2018	**307,019**	**–459**	**396,453**	**0**	**–5,670**	**1,699,944**	**2,397,287**	**41**	**2,397,328**
Profit						237,832	**237,832**	9	**237,841**
Foreign exchange differences					–10,700		**–10,700**	–3	**–10,703**
Remeasurement of defined benefit liability, net of income tax						–10,145	**–10,145**		**–10,145**
Other comprehensive income, net of income tax	0	0	0	0	–10,700	–10,145	**–20,845**	–3	**–20,848**
Total comprehensive income	**0**	**0**	**0**	**0**	**–10,700**	**227,687**	**216,987**	**6**	**216,993**
Ordinary dividend for the 2017 financial year						–101,314	**–101,314**		**–101,314**
Additional distribution from the capital contribution reserves for the 2017 financial year			–98,244				**–98,244**		**–98,244**
Purchase of treasury shares		–1,065					**–1,065**		**–1,065**
Share-based payments		1,182	–27				**1,155**		**1,155**
Balance as at 31 December 2018	**307,019**	**–342**	**298,182**	**0**	**–16,370**	**1,826,317**	**2,414,806**	**47**	**2,414,853**

(CHF 1,000)	Share capital	Treasury shares	Capital reserves	Fair value reserve	Translation reserve	Other retained earnings	Equity attributable to shareholders of Flughafen Zürich AG	Equity attributable to non-controlling interests	Total equity
Balance as at 1 January 2017	**307,019**	**–856**	**494,408**	**4,604**	**–8,383**	**1,461,696**	**2,258,488**	**1,661**	**2,260,149**
Profit						285,225	**285,225**	302	**285,527**
Adjustments to fair value of available-for-sale securities				264			**264**		**264**
Transfer to income statement of cumulative foreign exchange differences relating to the disposal of associates					2,876		**2,876**		**2,876**
Foreign exchange differences					–163		**–163**	–396	**–559**
Remeasurement of defined benefit liability, net of income tax						50,207	**50,207**		**50,207**
Other comprehensive income, net of income tax	0	0	0	264	2,713	50,207	**53,184**	–396	**52,788**
Total comprehensive income	**0**	**0**	**0**	**264**	**2,713**	**335,432**	**338,409**	**–94**	**338,315**
Ordinary dividend for the 2016 financial year						–98,245	**–98,245**		**–98,245**
Additional distribution from the capital contribution reserves for the 2016 financial year			–98,245				**–98,245**		**–98,245**
Purchase of treasury shares		–525					**–525**		**–525**
Share-based payments		922	290				**1,212**		**1,212**
Purchase of non-controlling interests								–1,526	**–1,526**
Balance as at 31 December 2017	**307,019**	**–459**	**396,453**	**4,868**	**–5,670**	**1,698,883**	**2,401,094**	**41**	**2,401,135**

CONSOLIDATED CASH FLOW STATEMENT

(CHF 1,000)	Notes	2018	2017
Profit		**237,841**	**285,527**
Finance result	(6)	23,064	18,324
Share of profit or loss of associates		4,329	3,091
Gain on disposal of associates		0	–36,293
Income tax expense	(8)	61,293	69,250
Depreciation/amortisation of			
Property, plant and equipment (after recognition of government subsidies and grants)	(9)	228,406	233,157
Investment property	(10)	240	352
Intangible assets	(11)	15,806	10,232
Gains (–)/losses (+) on disposal of property, plant and equipment (net)		1,407	1,551
Share-based payments		1,155	1,212
Increase (–)/decrease (+) in inventories, trade receivables and other receivables and prepaid expenses		–1,898	–745
Increase (+)/decrease (–) in current liabilities, excluding current financial liabilities		2,693	22,333
Increase (+)/decrease (–) in employee benefit obligations		4,558	5,525
Increase (+)/decrease (–) in provision for formal expropriations plus sound insulation and resident protection		36,676	–21,882
Income tax paid		–77,211	–61,890
Cash flow from operating activities		**538,359**	**529,744**
of which related to aircraft noise (Airport of Zurich Noise Fund)		–9,301	–10,896
Income from noise charges	(20)	11,945	11,557
Expenses for formal expropriations plus sound insulation and resident protection	(20)	–21,246	–22,453
Investments in property, plant and equipment (projects in progress)		–228,829	–162,324
Investments in investments property (incl. advance payments)		–102,781	–71,252
Investments in airport operator projects		–51,872	–41,438
Investments in associates		–5,487	–5,949
Proceeds from disposal of associates		0	43,653
Acquisition of subsidiaries less cash and cash equivalents acquired		0	–2,925
Investments in intangible assets		–153	–563
Investments in financial assets		–48,218	–129,180
Investments in fixed-term deposits due > 90 days		–221,000	–295,000
Repayment of financial assets		75,800	46,200
Repayment of fixed-term deposits due > 90 days		306,000	23,333
Repayment of fixed-term deposits of Airport Zurich Noise Fund due > 90 days		0	50,000
Proceeds from disposal of property, plant and equipment		219	141
Interest received		2,970	2,982
Cash flow from investing activities		**–273,351**	**–542,322**
of which related to aircraft noise (Airport of Zurich Noise Fund)		27,582	–31,794
Investments in financial assets and fixed-term deposits Airport of Zurich Noise Fund		–48,218	–127,994
Repayment of current financial assets and fixed-term deposits Airport of Zurich Noise Fund		75,800	96,200
Repayment of loan	(18)	0	–250,000
Issue of new loan	(18)	40,414	350,731
Repayment of other financial liabilities	(18)	–3,922	–3,433
Repayment of lease liabilities	(18)	–1,752	–1,692
Acquisition of non-controlling interests		0	–1,526
Payment of dividend for the 2017/2016 financial years		–199,550	–196,483
Purchase of treasury shares		–1,065	–525
Interest paid		–15,345	–19,366
Cash flow from financing activities		**–181,220**	**–122,294**
Increase (+)/decrease (–) in cash and cash equivalents		**83,788**	**–134,872**
Balance at 1 January	(16)	314,615	447,778
Effect of foreign exchange differences on cash and cash equivalents held		–2,531	1,709
Balance as at reporting date	**(16)**	**395,872**	**314,615**
of which included in Airport of Zurich Noise Fund	(16)	34,242	20,184

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I ACCOUNTING POLICIES

GENERAL REMARKS

The operating licence awarded by the Federal Government authorises and obliges the airport operator, Flughafen Zürich AG, to operate Zurich Airport until 2051. In addition to combining transport services by road, rail and air, Flughafen Zürich AG also operates Zurich Airport as a shopping, entertainment and services centre.

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRSs) and comply with Swiss law. They have been prepared under the historical cost convention, with the exception of the financial assets of the Airport of Zurich Noise Fund, derivative financial instruments, associates and defined benefit obligations.

The single-entity financial statements of the group’s subsidiaries, which have been prepared in accordance with uniform accounting policies, have been used as the basis for consolidation. The reporting date for all subsidiaries is 31 December.

The preparation of financial statements in accordance with IFRSs requires the Management Board to make estimates and assumptions, as well as exercise its discretion, when applying the accounting policies. This may affect reported income, expenses, assets, liabilities and contingent liabilities at the time of preparation of the financial statements. In the event that such estimates and assumptions made in good faith by the Management Board at the time of preparation of the financial statements subsequently deviate from the actual circumstances, the estimates and assumptions originally made are adjusted prospectively in the financial year in which the circumstances changed.

Judgements made by the Management Board in its application of IFRSs that have a significant effect on the consolidated financial statements, and estimates and assumptions with a significant risk of adjustment in the following financial year, are discussed in “II. Judgements and significant estimates and assumptions in the application of accounting policies” and in the following notes in Notes to the consolidated financial statements:

- Note 9, Property, plant and equipment
- Note 11, Intangible assets

NEW AND AMENDED ACCOUNTING POLICIES

CHANGES IN ACCOUNTING POLICIES

The company adopted the following new and amended International Financial Reporting Standards which are mandatory for the first time for the financial year beginning 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRSs (2014–2016 Cycle):

Except as outlined in the following, the above-mentioned amendments did not have a significant impact on the financial position, results of operations or cash flows of Flughafen Zürich AG for financial year 2018:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments contains revised principles for classifying and measuring financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It replaces the existing principles in IAS 39 Financial Instruments: Recognition and Measurement.

In some cases, the new principles in IFRS 9 resulted in changes in the classification of financial assets, in particular the financial assets of the Airport of Zurich Noise Fund (AZNF), which were previously classified as available-for-sale securities. The financial assets of the AZNF are now classified as at amortised cost (bonds) or at fair value through profit or loss (other financial assets). In addition, under the new principles governing impairment, losses on financial assets are recognised earlier. In the case of trade receivables, Flughafen Zürich AG uses a simplified method to calculate expected credit losses. Therefore, changes in credit risk are not tracked; instead, a loss allowance is recognised at each reporting date on the basis of the lifetime expected credit losses. The company conducted an analysis based on its credit loss experience to date and taking into account forward-looking factors specific to the borrowers and general economic conditions. In hedge accounting, there were no changes. Initial application of IFRS 9 reduced equity by CHF 3.8 million as at 1 January 2018. Prior-year amounts were not adjusted, as the company chose to apply the modified approach on initial application.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework in the form of a single, five-step model for determining whether, how much and when revenue is recognised. It replaces the existing principles for recognising revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The new principles in IFRS 15 do not have a significant impact on revenue recognition or on equity as at 1 January 2018. The additional disclosures required under IFRS 15 are presented accordingly in the Notes to the consolidated financial statements.

INTRODUCTION OF NEW STANDARDS IN 2019 AND LATER

The new, revised and amended standards and interpretations issued by the end of 2018 and set out in the table below are not yet effective and were not applied early in these consolidated financial statements.

New standards or interpretations		Effective date	Planned application by Flughafen Zürich AG
IFRS 16 Leases	**	1 January 2019	Financial year 2019
IFRIC 23 Uncertainty over Income Tax Treatments	*	1 January 2019	Financial year 2019

Revisions and amendments of standards and interpretations			
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	*	1 January 2019	Financial year 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	*	1 January 2019	Financial year 2019
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	*	1 January 2019	Financial year 2019
Annual Improvements to IFRSs (2015 – 2017 Cycle)	*	1 January 2019	Financial year 2019

* No, or no significant, impact is expected on the consolidated financial statements of Flughafen Zürich AG.
** Mainly additional disclosures or changes in presentation are expected in the consolidated financial statements of Flughafen Zürich AG.

IFRS 16 Leases

IFRS 16 Leases sets out the accounting and disclosure requirements for lessees and lessors. The new standard supersedes the existing IAS 17 Leases and the related interpretations. An analysis has revealed that application of IFRS 16 as of 1 January 2019 – with the exception of additional disclosures – is not expected to have any significant effects on the consolidated financial statements of Flughafen Zürich AG.

CHANGES IN THE CONSOLIDATED GROUP

In April 2018, Flughafen Zürich AG established the wholly-owned subsidiary Zurich Airport International Asia Sdn. Bhd. based in Kuala Lumpur (Malaysia), with a view to developing the markets in Asia.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SCOPE AND METHODS OF CONSOLIDATION

The consolidated financial statements comprise Flughafen Zürich AG and all companies in Switzerland and abroad that it directly or indirectly controls. Flughafen Zürich AG controls an entity if it is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control begins until the date on which control ceases. All assets and liabilities are therefore included in the consolidated financial statements together with all income and expenses in accordance with the principles of full consolidation. All unrealised gains and losses on intra-group transactions and all intra-group balances are eliminated on consolidation.

Business combinations are accounted for using the acquisition method at the date of acquisition. Consideration transferred in a business combination includes the fair value of the assets transferred, liabilities assumed or incurred and equity instruments issued by the group. Transaction costs incurred in connection with a business combination are recognised in the income statement. Goodwill arising from a business combination is recognised as an asset. Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of any previously held equity interest in the acquiree over the fair value of the assets acquired and liabilities assumed. Two choices exist regarding the measurement of non-controlling interests. Non-controlling interests are measured at their fair value or at their proportionate share of the recognised amount of the identifiable net assets. When the excess is negative, a bargain purchase gain is recognised immediately in the income statement, after first reassessing the fair value of the net assets acquired.

FOREIGN CURRENCY TRANSLATION

For consolidation purposes, all assets and liabilities reported in the balance sheets of companies within the group are translated into Swiss francs (functional currency of Flughafen Zürich AG) at the closing rate. Income statements and cash flow statements are translated at the average exchange rate for the period. Foreign currency differences arising on the translation of balance sheets and income statements are credited/charged directly to the translation reserve in equity. Transactions in foreign currency are translated into Swiss francs at the exchange rate in effect on the day of the transaction.

Foreign currency monetary items are translated at the exchange rate at the reporting date. Foreign exchange gains/losses that arise from the settlement or remeasurement of foreign currency items at the reporting date are recognised in the income statement.

ALTERNATIVE PERFORMANCE INDICATORS

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA comprises earnings before tax, the finance result, the share of profit/loss of associates plus depreciation and amortisation.

Earnings before interest and tax (EBIT)

EBIT comprises earnings before tax, the finance result and the share of profit/loss of associates.

REVENUE RECOGNITION

Revenue is recognised by Flughafen Zürich AG when the customer obtains control of a service (instead of when the risks and rewards of ownership transfer, as was previously the case).

Revenue in the “Aviation” segment primarily comprises passenger and landing charges. Charges for providing assistance to passengers with reduced mobility are received by the “PRM” segment, while the “User fees” segment primarily receives fees for the use of the central infrastructure. Revenue in the “Air security” segment mainly includes security charges, and in the “Noise” segment it mainly contains noise charges. Revenue is recognised immediately on rendering the service in question. Landing charges are billed per landing according to the weight of the aircraft. Passenger charges, fees for the use of the baggage sorting and handling system and security charges are based on the number of departing passengers. Noise charges are based, in turn, on the number of departing passengers and on an emissions-based charge according to the aircraft type.

The main components in the “Non-regulated business” segment are revenue from the marketing and rental of the commercial infrastructure at the airport (retail, tax & duty free, food & beverage operations, advertising media, parking, rental and leasing agreements, and energy and utility cost allocation). The service is rendered as soon as the commercial space is made available and the revenue recognised accordingly. For fixed-rent tenancy agreements classified as operating leases, the rents are recognised on a straight-line basis over the term of the tenancy agreement. Conditional rental payments (e.g. from turnover-based tenancy agreements) are recognised on an accrual basis based on the turnover generated by the lessee, in which case a minimum rent may be applied. The company does not currently have any tenancy agreements classified as finance leases.

LEASES AS LESSEE

Finance leases

Lease agreements that substantially transfer all the risks and rewards of ownership to the company concerned at inception of the lease are classified as finance leases. They are stated at the lower of fair value and present value of the minimum lease payments less accumulated depreciation and any impairment losses. Lease payments are allocated between an interest expense and a reduction of the outstanding liability. Leased assets are depreciated over the estimated useful life or over the term of the lease, whichever is shorter. Interest on finance leases and depreciation of the leased assets are charged to the income statement.

Operating leases

Income and expenses associated with operating leases are recognised in the income statement on a straight-line basis over the period of the lease.

FINANCE RESULT

The finance result comprises interest payments on borrowings calculated using the effective interest method (excluding borrowing costs relating to buildings under construction), interest expense as a result of adjusting the present value of provisions and non-current liabilities, interest and dividend income, foreign currency gains and losses, and gains and losses on financial assets.

Interest income is recognised in the income statement using the effective interest method. Dividend income is recognised in the financial statements at the due date.

Borrowing costs arising during the construction stage for movables, buildings and engineering structures are capitalised up until the date the asset is taken into use or at the date of completion, if earlier.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at acquisition or construction cost, less accumulated depreciation and accumulated impairment losses. The construction cost of buildings includes direct costs for labour (third-party services and internal personnel), materials and overheads, plus the borrowing costs arising during the construction stage, which are capitalised up until the date the asset is taken into use or at the date of completion, if earlier. Borrowing costs and expenditure relating to significant assets under construction are capitalised.

Components of an item of property, plant and equipment with a different useful life are reported individually and depreciated separately. Expansion and replacement expenditure is capitalised only if it is probable that future economic benefits will flow to Flughafen Zürich AG. Maintenance and renovation expenditure is charged to the income statement when incurred.

The assets (with the exception of land, which is not depreciated) are depreciated using the straight-line method over the estimated useful life or over the term of the lease, whichever is shorter. The useful life for each category of property, plant and equipment is as follows:

- Buildings: maximum 30 years
- Engineering structures: maximum 30 years
- Movables: 4 to 20 years

GOVERNMENT SUBSIDIES AND GRANTS

Government subsidies and grants related to investments are deducted from the carrying amount in the relevant balance sheet items and recognised in profit or loss over the useful life of the related asset. They are reported in the income statement as an adjustment to the depreciation of the related asset. All government subsidies take the form of "à fonds perdu" grants and do not have to be repaid.

PROJECTS IN PROGRESS

Projects in progress are stated at acquisition or production cost and include investments in projects that have not yet been completed. These mainly comprise assets under construction. Once a project has been completed, the related asset is transferred to the relevant categories of property, plant and equipment and segments. Assets that are already in use or are classified as "Projects in progress" are depreciated from the time they are brought into use. From the date the asset is taken into use or at the date of completion, if earlier, no further expenditure on the asset or related borrowing cost is capitalised.

INVESTMENT PROPERTY

Investment property (in accordance with IAS 40) is property held for the long term to earn rentals or for capital appreciation. It is measured at initial recognition at its cost and subsequently at cost less straight-line depreciation and any impairment losses in accordance with IAS 36.

JOINT ARRANGEMENTS

A joint arrangement (in accordance with IFRS 11) is a contractual arrangement between two or more parties which gives those parties joint control of an activity. Each joint arrangement must be classified as either a joint operation or a joint venture. In a joint operation, the parties that have joint control have rights to the assets and obligations for the liabilities of the joint arrangement and account for them in relation to their interest. In a joint venture, the parties that have joint control merely have rights to the net assets of the joint arrangement (the investment is accounted for using the equity method).

INTANGIBLE ASSETS

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised using the straight-line method.

With the award of the operating licence, Flughafen Zürich AG was also granted a right of formal expropriation in respect of property owners exposed to aircraft noise. This right of formal expropriation was granted on condition that the airport operator bears the costs associated with compensation payments and is recognised as an intangible asset at the date when the probable total cost can be estimated based on final-instance court rulings, so that the cost can be reliably estimated in accordance with IAS 38.21. The timing of recognition may differ depending on the airport region. At the same time as an intangible asset is recognised at the present value of the expected future payments, an equal amount is recognised as a provision. Any future adjustments to the probable total cost already recognised as assets and liabilities will be reflected on both sides of the balance sheet. The intangible asset is amortised using the straight-line method over the remaining duration of the operating licence (i.e. until May 2051).

In the case of clearly defined projects, external and internal costs directly attributable to the development of computer software are capitalised if they will be exceeded by the future economic benefits. The useful life of software is three to five years.

INVESTMENTS IN AIRPORT OPERATOR PROJECTS

The concession arrangements for the operation of foreign airports fall within the scope of IFRIC 12 and are generally accounted for under the intangible asset model (IFRIC 12.17), as the company as operator receives the right to charge for usage as consideration for the obligation to pay concession fees and provide upgrade services. The obligations under the concession arrangements to pay fixed concession fees are recognised as financial liabilities. They are initially measured at the fair value of the liabilities using a discount rate appropriate to the risk. The rights to operate the airports that are received as consideration are recognised as intangible assets in the same amount and presented as investments in airport operator projects. The rights received as consideration for the upgrade services provided are recognised as an intangible asset on an accrual basis at the cost of construction. Revenues and costs relating to upgrade services are generally recognised in accordance with IFRIC 12.14. The financial liabilities recognised are subsequently measured at amortised cost using the effective interest method. The rights recognised as assets are subsequently measured at cost less accumulated amortisation over the term of the concessions. In accordance with IFRIC 12.18, any minimum revenue guaranteed by the grantor is deducted from the intangible asset and accounted for as a financial asset.

INVESTMENTS IN ASSOCIATES

Associates are companies where the group is able to exercise significant influence, but not control, over the financial and operating policies (where the group holds between 20% and 50% of the voting rights). Associates are included in the consolidated financial statements by applying the equity method. Any difference between the cost of the investment and the fair value of the share of net assets acquired is determined at the time of acquisition and recognised as goodwill and included in the carrying amount of the investment. In subsequent reporting periods, the carrying amount is adjusted to recognise the share of Flughafen Zürich AG of any profit or loss and changes recognised in other comprehensive income of the investee and any dividends received.

Investments in associates where the group holds less than 20% of the voting rights, but where it nonetheless is able to exercise significant influence, are also included in the consolidated financial statements by applying the equity method.

FINANCIAL ASSETS

The new principles in IFRS 9 resulted in changes in relation to the financial assets of the Airport of Zurich Noise Fund (AZNF), which until the end of financial year 2017 were classified as available for sale. Since 1 January 2018, the financial assets of the AZNF have been classified as at amortised cost (bonds) or at fair value through profit or loss (other financial assets).

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used exclusively for the purpose of hedging interest rate and currency risks, and are recognised as other receivables or other current liabilities at fair value. Changes in fair value are recognised in the income statement.

INVENTORIES

Inventories mainly comprise operating supplies and consumables used for the maintenance and repair of property, plant and equipment and are stated at cost or, if lower, at net realisable value. The first-in, first-out method is applied when calculating the cost.

RECEIVABLES

Receivables are stated at amortised cost, which is usually their nominal value, minus individual allowances for doubtful accounts. As soon as there is sufficient evidence that a receivable will not be recoverable, it is directly written off or offset against the corresponding allowances.

Flughafen Zürich AG uses a simplified method to calculate expected credit losses on trade receivables. Changes in credit risk are not tracked; instead, a loss allowance is recognised at each reporting date on the basis of the lifetime expected credit losses. In addition to forward-looking factors specific to the borrowers and general economic conditions, credit loss experience to date is also taken into account.

The recoverable amount of receivables is the present value of the estimated future cash flows. Impairment losses on receivables are reversed if the amount of the impairment loss decreases and the decrease is related to an event that occurred in a period after the impairment loss was recognised.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, in postal accounts and at banks and short-term investments with a maturity of 90 days or less from the date of acquisition.

IMPAIRMENT

The carrying amounts of non-current non-financial assets (excluding deferred taxes) are assessed once a year for indications of impairment. If there is any indication that an asset may be impaired, the recoverable amount of the asset is calculated (impairment test).

If the carrying amount of an asset or related cash generating unit exceeds its recoverable amount, an impairment loss is recognised in the income statement.

The recoverable amount is the higher of the fair value less costs to sell and value in use. To determine value in use, the estimated future cash flows are discounted. The discount rate is a pre-tax rate that reflects the risks associated with the corresponding asset. If an asset does not generate cash inflows that are largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment losses on other assets are reversed if indications exist that the impairment loss has decreased or no longer exists, and if estimates that were used for calculating the recoverable amount have changed.

The increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

EQUITY

Share capital

Shares are classified as equity since they are non-redeemable and dividend payments are at the discretion of the company.

Treasury shares
The cost (purchase price and directly attributable transaction costs) of treasury shares is deducted from equity.

Dividends
Dividends are recognised as a liability as soon as they have been approved at the General Meeting of Shareholders.

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value less transaction costs. The difference between the carrying amount and the redemption amount is amortised over the term of the liability using the effective interest method.

PROVISIONS

Provisions are recognised when the entity has a present obligation as a result of a past event that occurred prior to the reporting date, if an outflow of resources is probable and the amount of the outflow can be estimated reliably. If the effect is significant, provisions are reported in the balance sheet at their present value.

Provisions for legal and constructive obligations for sound insulation and resident protection measures are recognised on the basis of the Environmental Protection Act as soon as they can be estimated reliably.

Provisions for formal expropriations are recognised for compensation payments as soon as these have been reliably estimated on the basis of final-instance court rulings (see Intangible assets).

EMPLOYEE BENEFITS

For defined benefit plans, the benefit cost and the defined benefit obligation are determined on the basis of various economic and demographic assumptions using the projected unit credit method and taking into account the past years of insurance up until the measurement date. The assumptions required to be made by Flughafen Zürich AG include, among others, expectations about future salary increases, the long-term return on retirement savings accounts, employee turnover and life expectancy. The calculations are performed annually by independent actuaries. The plan assets are measured annually at fair value and deducted from the defined benefit obligation.

The defined benefit cost consists of three components:

- service cost, which is recognised in the income statement within personnel expenses;
- net interest expense, which is recognised in the income statement within the finance result; and
- remeasurement components, which are recognised in other comprehensive income.

Service cost comprises current service cost, past service cost and gains and losses on settlement. Gains and losses resulting from curtailments are regarded as past service cost. Employee contributions and contributions from third parties reduce service cost and are deducted from it if they are set out in the formal terms of the plan or arise from a constructive obligation.

The net interest expense is the amount calculated by multiplying the net defined benefit obligation (or asset) by the discount rate, both as at the beginning of the financial year, including any changes during the period as a result of contributions and benefit payments. Cash flows and changes during the year are factored in pro rata.

Remeasurement components comprise actuarial gains and losses resulting from changes in the present value of the defined benefit obligations due to changes in assumptions and experience adjustments, the return on plan assets less amounts included in net interest expense, and changes in unrecognised assets less effects included in net interest expense. Remeasurement components are recognised in other comprehensive income and cannot be recycled.

The amount recognised in the consolidated financial statements is the surplus or deficit of the defined benefit plans (net defined benefit obligation or asset). However, the asset recognised as a result of any surplus is limited to the present value of economic benefits to the group available in the form of reductions in future contributions.

Employer contributions to defined contribution plans are recognised in the income statement as personnel expenses when the employee earns the benefit entitlement. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss.

For other long-term employee benefits, the present value of the obligation is recognised at the end of the reporting period. Changes in the present value are recognised in the income statement as personnel expenses.

SHARE-BASED PAYMENT

Flughafen Zürich AG’s annual bonus programme provides for one-third of the allocated bonus to be paid out to members of the Management Board and eligible members of management in the form of shares. The share-based payment is recognised as an expense with a corresponding increase in equity.

INCOME TAXES

Income taxes comprise current and deferred taxes. They are recognised in the income statement unless relating to transactions recognised in other comprehensive income or directly in equity. In these cases, taxes are also recognised in other comprehensive income or directly in equity.

Current taxes comprise the taxes expected to be payable on the taxable result, calculated using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes are recognised for temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and their tax base using the balance sheet liability method. No deferred taxes are recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Measurement of deferred taxes takes into account the expected timing and manner of realisation or settlement of the assets and liabilities concerned using tax rates that are enacted or substantively enacted at the reporting date.

Deferred tax assets are only recognised if it is probable that the deductible temporary differences can be offset against future taxable profits.

SEGMENT REPORTING

Reporting of operating segments is carried out in accordance with IFRS 8 in line with the internal reporting to the company's chief operating decision-maker. The Board of Directors has been identified as chief operating decision-maker of Flughafen Zürich AG responsible for major decisions concerning the allocation of resources and the assessment of the operating segments' performance.

II JUDGEMENTS AND SIGNIFICANT ESTIMATES AND ASSUMPTIONS IN THE APPLICATION OF ACCOUNTING POLICIES

REPORTING OF NOISE-RELATED COSTS IN THE CONSOLIDATED FINANCIAL STATEMENTS

The reporting of noise-related costs in the financial statements is a complex matter. In particular the issue of formal expropriations involves significant assumptions and estimates concerning the capitalisation of such costs and the obligation to recognise appropriate provisions. This complexity is attributable to a large variety of relevant legal bases, unclear or pending legal practice and political debate.

The rulings by the Swiss Federal Supreme Court in the first half of 2008 on fundamental issues related to formal expropriations enabled Flughafen Zürich AG to reliably estimate the total cost of compensation for formal expropriations for the first time, in spite of the remaining uncertainties regarding the accuracy of this estimate. With further rulings on 8 June 2010 and 9 December 2011, the Swiss Federal Supreme Court definitively set the cut-off date for the foreseeability of an eastern approach as 1 January 1961 and ruled definitively on the method used to calculate a decline in the market value of investment property. In the first half of 2016, the Swiss Federal Supreme Court handed down two rulings in test cases regarding claims for compensation relating to the eastern and southern approach routes. Based on these Swiss Federal Supreme Court rulings and other fundamental issues that have since been decided in a court of final instance, the company undertook a reappraisal of costs for formal expropriations, which in each case led to an adjustment to both the provision for formal expropriations and the intangible asset from the right of formal expropriation.

In the first half of 2018, the court handed down two rulings in test cases regarding cooperative ownership. These Swiss Federal Supreme Court rulings enabled Flughafen Zürich AG to undertake a reappraisal of the outstanding cost of compensation for formal expropriations. Based on the recalculation, the expected total costs for formal expropriations decreased from CHF 385.0 million to CHF 350.0 million. This enabled the provision for formal expropriations to be reduced by CHF 34.5 million (nominal amount: CHF 35.0 million) as at 30 June 2018 (see note 19, Provision for formal expropriations plus sound insulation and resident protection). At the same time, the intangible asset from the right of formal expropriation was reduced by the same amount (see note 11, Intangible assets).

As at the reporting date, the estimated costs for formal expropriations amounted to CHF 350.0 million (31 December 2017: CHF 385.0 million), of which CHF 72.1 million had already been paid out at that date. The outstanding costs of CHF 277.9 million (nominal amount) are stated at their present value of CHF 275.2 million in the consolidated financial statements for the period ended 31 December 2018.

With respect to sound insulation and resident protection measures, the Federal Office of Civil Aviation (FOCA) required Flughafen Zürich AG, in connection with its 2014 operating regulations application, to submit an extended sound insulation programme by the end of June 2015. Based on the permitted noise exposure levels specified by FOCA, and taking into account the still pending changes to its 2014 operating regulations, the company duly submitted its 2015 sound insulation programme by this deadline. At its meeting on 22 June 2015, the Board of Directors approved a further CHF 100 million of measures in this context in addition to the CHF 240 million previously estimated for sound insulation and resident protection.

Flughafen Zürich AG is required to implement sound insulation measures in the area where it claims exemptions from noise limits (emission limit). In this context, the Federal Office of Civil Aviation (FOCA) has initiated a night-time noise abatement procedure. The area with exemptions under the Sectoral Aviation Infrastructure Plan adopted by the Federal Council on 23 August 2017 is to be extended. A provision for further costs of CHF 60.0 million, with a present value of CHF 57.6 million, was recognised in this context as at 30 June 2018 in addition to the cost of CHF 340.0 million previously estimated for sound insulation and resident protection (see note 5, Other income and expenses and note 19, Provision for formal expropriations plus sound insulation and resident protection).

As at the reporting date, the estimated costs for sound insulation and resident protection measures amounted to CHF 400.0 million (31 December 2017: CHF 340.0 million), of which CHF 249.1 million had already been paid out at that date. The outstanding costs of CHF 150.9 million (nominal amount) are stated at their present value of CHF 148.2 million in the consolidated financial statements for the period ended 31 December 2018.

Depending on future and final-instance legal judgements, including with respect to the southern approaches, noise-related liabilities may in future be subject to substantial adjustments, which would also require adjustments to the noise-related costs recognised as assets and liabilities in the balance sheet. At the present time, it is not possible to reliably estimate the total costs to capitalise as an intangible asset from the right of formal expropriation, the resulting amortisation or the corresponding provision.

Aircraft noise costs are refinanced through charges. The most important charge from a refinancing standpoint up until 1 February 2014 was the separate CHF 5.00 passenger noise charge. Owing to a directive on airport charges issued by FOCA on 14 November 2013, this passenger-related noise supplement was no longer collected as of 1 February 2014 as it can be assumed that the funds of the Airport of Zurich Noise Fund are sufficient to finance the costs currently estimated. Should actual future noise-related costs significantly exceed the estimate, this supplement would have to be levied again over the medium term in order to cover the costs. Aircraft noise charges are still.

VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS; RELIABILITY OF ESTIMATE OF CAPITALISED NOISE-RELATED COSTS

Flughafen Zürich AG owns property, plant and equipment and intangible assets with a total carrying amount of around CHF 2.9 billion. If there is any indication that an asset may be impaired, the recoverable amount of the asset is calculated (impairment test). On each reporting date, a check is conducted to determine whether there are any such indications and an impairment test needs to be performed. The calculation is based on the estimated future free cash flows of Flughafen Zürich AG, and a variety of assumptions have to be made in order to estimate them. Actual cash flows may be negatively impacted by the risk factors described in the previous section “Reporting of noise-related costs in the consolidated financial statements”.

1 SEGMENT REPORTING

The following table shows the reportable segments in the current financial year:

(CHF million)

2018	Regulated business	Noise	Non-regulated business	Eliminations	Consolidated
Revenue from contract with customers (IFRS 15)	644.9	11.6	237.6	0.0	894.1
Other revenue (non IFRS 15)	0.2	0.0	258.6	0.0	258.8
Total revenue from third parties	**645.1**	**11.6**	**496.2**	**0.0**	**1,152.9**
Inter-segment revenue	19.3	0.0	88.3	–107.6	0.0
Total revenue	**664.4**	**11.6**	**584.5**	**–107.6**	**1,152.9**
Operating expenses	–352.1	–60.9	–276.5	107.6	–581.9
Segment result (EBITDA)	**312.3**	**–49.3**	**308.0**	**0.0**	**571.0**
Depreciation and amortisation	–135.1	–4.8	–104.6	0.0	–244.5
Segment result (EBIT)	**177.2**	**–54.1**	**203.4**	**0.0**	**326.5**
Finance result					–23.1
Share of profit or loss of associates					–4.3
Income tax expense					–61.3
Profit					**237.8**
Invested capital as at 31 December 2018	**1,901.6**	**109.8**	**1,505.4**		**3,516.8**
Non-interest-bearing non-current liabilities 1)					617.5
Non-interest-bearing current liabilities 2)					231.0
Total assets as at 31 December 2018					**4,365.3**
ROIC (in %)	**7.3**	**–32.2**	**11.2**		**7.4**
Capital expenditure	128.8	0.2	231.8		360.8
Investments in associates			12.3		12.3

1) Non-interest-bearing non-current liabilities include non-current provisions for formal expropriations plus sound insulation and resident protection, deferred tax liabilities, employee benefit obligations and non-current liabilities from concession arrangements.
2) Non-interest-bearing current liabilities include current provisions for formal expropriations and sound insulation and resident protection, current tax liabilities, trade payables and other current liabilities plus accruals and deferrals.

(CHF million) 2018	Aviation	PRM	User fees	Air security[4)]	Access fees[4)]	Eliminations	Total regulated business
Revenue from contract with customers (IFRS 15)	380.6	15.6	69.9	177.7	1.1	0.0	644.9
Other revenue (non IFRS 15)	0.2	0.0	0.0	0.0	0.0	0.0	0.2
Revenue from third parties	**380.8**	**15.6**	**69.9**	**177.7**	**1.1**	**0.0**	**645.1**
Inter-segment revenue	19.2	0.0	5.2	10.7	2.2	–18.0	19.3
Total revenue	**400.0**	**15.6**	**75.1**	**188.4**	**3.3**	**–18.0**	**664.4**
Operating expenses	–171.0	–13.1	–33.4	–89.0	–63.6	18.0	–352.1
EBITDA	**229.0**	**2.5**	**41.7**	**99.4**	**–60.3**	**0.0**	**312.3**
Depreciation and amortisation	–100.6	–0.1	–24.8	–6.2	–3.4	0.0	–135.1
EBIT	**128.4**	**2.4**	**16.9**	**93.2**	**–63.7**	**0.0**	**177.2**
Invested capital as at 31 December 2018	**1,419.2**	**7.1**	**324.2**	**108.8**	**42.3**		**1,901.6**
ROIC (in %)	**7.1**	**25.1**	**4.2**	**66.5**	**–119.3**		**7.3**
Operating assets pursuant to Ordinance on Airport Charges (FGV)[3)]	1,323.2	2.9	306.4	65.0	38.9		1,736.4
ROIC (in %) pursuant to FGV	8.5	66.8	4.5	116.0	–131.6		8.8

3) The Ordinance on Airport Charges (FGV) defines operating assets, on which a reasonable rate of return forms the basis for the charges, as the sum of the “residual cost of the existing assets and net working capital”. This definition therefore results in minor deviations compared with the reported capital employed.
4) In accordance with the Swiss Ordinance on Airport Charges, the shortfall in the “Access fees” segment can be charged to the “Air security” segment. Taking the shortfall into account, the ROIC of the “Air security” segment amounts to 15.3%.

The following table shows the reportable segments in the previous year:

(CHF million) 2017	Regulated business	Noise	Non-regulated business	Eliminations	Consolidated
Revenue from contract with customers (IFRS 15)	612.4	11.6	166.9	0.0	790.9
Other revenue (non IFRS 15)	0.2	0.0	246.0	0.0	246.2
Total revenue from third parties	**612.6**	**11.6**	**412.9**	**0.0**	**1,037.1**
Inter-segment revenue	18.9	0.0	88.6	–107.5	0.0
Total revenue	**631.5**	**11.6**	**501.5**	**–107.5**	**1,037.1**
Operating expenses	–352.3	–3.5	–205.3	107.6	–453.5
Segment result (EBITDA)	**279.2**	**8.1**	**296.2**	**0.1**	**583.6**
Depreciation and amortisation	–138.6	–5.3	–99.8	0.0	–243.7
Segment result (EBIT)	**140.6**	**2.8**	**196.4**	**0.1**	**339.9**
Finance result					–18.3
Share of profit or loss of associates					–3.1
Gain on disposal of assets held for sale					36.3
Income tax expense					–69.3
Profit					**285.5**
Invested capital as at 31 December 2017	**1,934.4**	**157.5**	**1,378.8**		**3,470.7**
Non-interest-bearing non-current liabilities 1)					579.8
Non-interest-bearing current liabilities 2)					248.2
Total assets as at 31 December 2017					**4,298.7**
ROIC (in %)	**5.9**	**1.4**	**12.2**		**8.1**
Capital expenditure	94.4	0.1	196.2		290.7
Investments in associates			13.5		13.5

1) Non-interest-bearing non-current liabilities include non-current provisions for formal expropriations plus sound insulation and resident protection, deferred tax liabilities, employee benefit obligations and non-current liabilities from concession arrangements.
2) Non-interest-bearing current liabilities include current provisions for formal expropriations and sound insulation and resident protection, current tax liabilities, trade payables and other current liabilities plus accruals and deferrals.

(CHF million) 2017	Aviation	PRM	User fees	Air security[4]	Access fees[4]	Eliminations	Total regulated business
Revenue from contract with customers (IFRS 15)	361.3	14.7	68.6	166.8	1.0	0.0	612.4
Other revenue (non IFRS 15)	0.2	0.0	0.0	0.0	0.0	0.0	0.2
Total revenue from third parties	**361.5**	**14.7**	**68.6**	**166.8**	**1.0**	**0.0**	**612.6**
Inter-segment revenue	19.0	0.0	5.7	10.7	2.1	–18.6	18.9
Total revenue	**380.5**	**14.7**	**74.3**	**177.5**	**3.1**	**–18.6**	**631.5**
Operating expenses	–174.7	–12.5	–33.4	–89.6	–60.7	18.6	–352.3
EBITDA	**205.8**	**2.2**	**40.9**	**87.9**	**–57.6**	**0.0**	**279.2**
Depreciation and amortisation	–100.8	–0.1	–24.9	–8.6	–4.2	0.0	–138.6
EBIT	**105.0**	**2.1**	**16.0**	**79.3**	**–61.8**	**0.0**	**140.6**
Invested capital as at 31 December 2017	**1,452.3**	**7.4**	**318.2**	**114.0**	**42.5**		**1,934.4**
ROIC (in %)	**5.8**	**27.0**	**4.0**	**61.1**	**–116.4**		**5.9**
Operating assets pursuant to Ordinance on Airport Charges (FGV)[3]	1,337.9	2.5	296.5	62.7	38.0		1,737.6
ROIC (in %) pursuant to FGV	7.0	64.3	4.3	97.5	–126.6		7.0

3) The Ordinance on Airport Charges (FGV) defines operating assets, on which a reasonable rate of return forms the basis for the charges, as the sum of the "residual cost of the existing assets and net working capital". This definition therefore results in minor deviations compared with the reported capital employed.
4) In accordance with the Swiss Ordinance on Airport Charges, the shortfall in the “Access fees” segment can be charged to the “Air security” segment. Taking the shortfall into account, the ROIC of the “Air security” segment amounts to 9.6%.

Internal reporting of operating segments to the chief operating decision-maker is carried out in accordance with the Ordinance on Airport Charges (FGV), more specifically with regard to the regulated charges and fees affected by the Ordinance. The following segments are presented for the regulated business and submitted to the chief operating decision-maker as the basis for his significant judgements and decisions:

- “Aviation” segment
- “PRM” segment
- “User fees” segment
- “Air security” segment
- “Access fees” segment

The “Regulated business” column presented in the segment reporting tables is not a separate segment in accordance with IFRS 8; for presentation reasons, it merely combines the reportable segments in which charges and fees are regulated by the FGV (excluding the “Noise” segment).

All regulated revenue related to aircraft noise and the corresponding expenses are reported separately in the “Noise” segment so as to ensure transparency in presenting the performance and balance of the Airport of Zurich Noise Fund in particular (note 20, Airport of Zurich Noise Fund).

In all, Flughafen Zürich AG therefore has the following reportable segments:

→ AVIATION

The “Aviation” segment comprises the original infrastructure and services related to flight operations. It incorporates all the core services provided to airlines and passengers by Flughafen Zürich AG in its capacity as operator of Zurich Airport. These services include the runway system, most apron zones (including control activities), passenger zones in the terminals, freight operations, passenger handling and services, and safety. The main sources of revenue for the “Aviation” segment are passenger and landing charges. Revenue from third parties is determined by passenger volumes, flight volumes and the trend with respect to aircraft take-off weights.

→ PRM

The “PRM” (People with Reduced Mobility) segment combines the infrastructure and services related to implementing the regulation regarding the provision of support for passengers with reduced mobility. Revenue consists exclusively of the PRM charge.

→ USER FEES

The “User fees” segment comprises the central infrastructure, in particular the check-in areas and facilities, baggage sorting and handling system, aircraft power supply system, handling apron areas and the related services and fees.

→ AIR SECURITY

The “Air security” segment comprises the equipment and services that Flughafen Zürich AG is responsible for providing for air security (passenger and aircraft security measures). This includes all systems and their operation and maintenance designed to prevent actions of any kind that affect the security of commercial civil aviation, in particular facilities for checks on passengers, hand luggage, checked baggage and freight. The security charges levied per passenger are the main source of revenue for covering the costs of the “Air security” segment.

→ ACCESS FEES

The “Access fees” segment comprises the air security-related equipment and services that have to be provided in order to allow all persons other than passengers to access the airside areas. This includes all relevant systems and their operation and maintenance. It also includes airport policing duties such as surveillance patrols and other security-related duties. Revenue in the “Access fees” segment comes mainly from the fees for issuing airport badges.

→ NOISE

All revenue and expenses related to aircraft noise are reported separately in the “Noise” segment. A liquidity-based statement of noise-related data is presented in the notes to the consolidated financial statements (note 20, Airport of Zurich Noise Fund). This statement presents the accumulated surplus or shortfall as at the reporting date arising from noise charges determined on a costs-by-cause basis, less expenses for formal expropriations, sound insulation and resident protection measures, and operating costs.

→ NON-REGULATED BUSINESS

The “Non-regulated business” segment encompasses all activities relating to the development, marketing and operation of the commercial infrastructure at Zurich Airport. This includes all retail and restaurant/catering operations at the airport, revenue from rented premises and supplementary costs (energy supply, etc.), parking charges plus a broad range of commercial services provided by Flughafen Zürich AG.

PRINCIPLES OF SEGMENT REPORTING

For reporting purposes, each profit centre has been allocated to a segment. Any internal supplies and services that have been provided to other segments have been booked as inter-segment revenue or offset against costs. For example, the “Supplementary costs” profit centre is allocated to Non-regulated business and proportionate costs are charged to the Regulated business segments on a costs-by-cause basis. Support functions are also allocated to Non-regulated business and charged on accordingly.

Invested capital is allocated to the respective operating segments based, firstly, on the allocation of the individual assets in the fixed-asset ledger and, secondly, on the pro rata allocation of the remaining assets (buildings, engineering structures and net working capital) to the respective segments. Until projects in progress have been completed, they are allocated to the segment with the largest share of the project measured by value. The definitive allocation to segments takes place after the projects have been classified into the relevant asset categories.

The identified operating segments have not been aggregated.

ADDITIONAL DISCLOSURES IN ACCORDANCE WITH THE SWISS ORDINANCE ON AIRPORT CHARGES (FGV)

In accordance with Art. 34 FGV, 30% of the economic added value in the airside area of the airport not relevant to flight operations and the area of road vehicle parking is to be used in the form of a transfer payment to finance the costs in the “Aviation” segment. Pursuant to this rule, in 2018 the sum of CHF 14.5 million (2017: CHF 14.3 million) was allocated to the “Aviation” segment and is reflected in the reported return on operating assets. Moreover, in accordance with Art. 45 FGV, the shortfall in the “Access fees” segment can be charged to the “Air security” segment.

ADDITIONAL DISCLOSURES

Flughafen Zürich AG primarily provides services within Switzerland. In financial year 2018, external consulting services totalling CHF 6.0 million (2017: CHF 6.6 million) were provided in Brazil and Chile. Flughafen Zürich AG’s revenue with Lufthansa Group in the reportable segments amounted to CHF 432.3 million in the past financial year (2017: CHF 400.1 million).

2 REVENUE

(CHF 1,000)	2018	2017
Passenger charges	251,798	238,757
Security charges	175,685	165,884
PRM charges	15,554	14,675
Passenger-related flight operations charges	**443,037**	**419,316**
Landing charges	86,838	82,609
Aircraft-related noise charges	11,629	11,561
Emission charges	4,068	3,830
Parking charges	26,257	25,102
Freight revenue	8,919	8,667
Other flight operations charges	**137,711**	**131,769**
Total flight operations charges	**580,748**	**551,085**
Baggage sorting and handling system	43,500	41,438
De-icing	11,742	12,750
Check-in	5,900	5,830
Aircraft energy supply system	3,800	3,636
Other fees	6,148	5,933
Total aviation fees	**71,090**	**69,587**
Refund of security costs	1,961	943
Other revenue	2,868	2,626
Total other aviation revenue	**4,829**	**3,569**
Total aviation revenue	**656,667**	**624,241**
Retail, tax & duty-free	111,379	102,108
Food & beverage operations	18,900	17,496
Advertising media and promotion	18,137	18,303
Revenue from multi-storey car parks	81,462	79,387
Other commercial revenue (car rentals, taxis, banks, etc.)	18,427	16,924
Total commercial revenue	**248,305**	**234,218**
Revenue from rental and leasing agreements	89,994	89,234
Energy and utility cost allocation	21,959	21,438
Cleaning	4,712	4,872
Revenue from services	4,686	4,254
Total revenue from facility management	**121,351**	**119,798**
Communication services	15,436	15,282
Other services and miscellaneous	17,446	16,072
Catering	2,109	1,977
Fuel charges	8,707	8,220
Total revenue from services	**43,698**	**41,551**
Revenue from consulting activities	6,048	6,596
Other revenue from international business	36,130	7,589
Revenue from construction projects as part of concession arrangements	40,698	3,132
Total revenue from international business	**82,876**	**17,317**
Total non-aviation revenue	**496,230**	**412,884**
Total revenue	**1,152,897**	**1,037,125**

Presentation of revenue from contracts with customers (IFRS 15):

(CHF 1,000)	2018	2017
Flight operations charges	580,748	551,085
Aviation charges	71,090	69,587
Other aviation revenue	4,624	3,364
Total aviation revenue from contracts with customers (IFRS 15)	**656,462**	**624,036**
Aviation revenue (non IFRS 15)	205	205
Total aviation revenue	**656,667**	**624,241**
Commercial and parking revenue	81,738	79,246
Revenue from facility management	30,763	30,146
Revenue from services	42,238	40,135
Revenue from international business	82,876	17,317
Total non-aviation revenue from contracts with customers (IFRS 15)	**237,615**	**166,844**
Non-aviation revenue (non IFRS 15)	258,615	246,040
Total non-aviation revenue	**496,230**	**412,884**
Total revenue	**1,152,897**	**1,037,125**

3 PERSONNEL EXPENSES

(CHF 1,000)	2018	2017
Wages and salaries	158,551	151,131
Pension costs for defined benefit plans[1)]	21,617	23,170
Social security contributions	14,326	14,114
Other personnel expenses and employee benefits	16,989	13,043
Total personnel expenses	**211,483**	**201,458**
Average number of employees (full-time positions)[2)]	**1,735**	**1,618**
Number of employees as at reporting date (full-time positions)[2)]	**1,757**	**1,713**
Personnel expense per full-time position as at 31 December	**120**	**118**

1) See note 22, Employee benefits.
2) Including employees of all subsidiaries.

STAFF PARTICIPATION PROGRAMME

Flughafen Zürich AG gives those employees who have completed their first year of service a one-off gift in the form of one share free of charge. In the reporting period 140 shares (2017: 151 shares) worth CHF 28,506 (2017: CHF 33,644) were handed out.

BONUS PROGRAMME FOR MEMBERS OF THE MANAGEMENT BOARD AND OTHER MEMBERS OF MANAGEMENT

The total annual remuneration awarded to members of the Management Board and other members of management comprises a fixed salary and a variable performance component (bonus), which is based on the consolidated result. The criterion for measuring the consolidated result is earnings before interest and tax (EBIT) excluding noise-related factors, or the difference between targeted and achieved EBIT (excluding noise-related factors). The decision relating to the degree of achievement of the consolidated result is taken in the following financial year (grant date). Two thirds of the bonus is paid out in cash and one third in shares.

(Recipient)	2018 (CHF 1,000)	2017 (CHF 1,000)	2017 [1] (Number of shares)	Price per share [1] (CHF)
Members of the Management Board	390	401	1,921	205.20
Other members of management	772	760	3,560	205.20
Adjustment of bonus accrued in the previous year [2]	–36	16		
Total	**1,126**	**1,177**	**5,481**	

1) Shares distributed in the 2018 financial year under the bonus programme for the Management Board and other members of management (number and price per share) for the 2017 financial year.
2) In the subsequent period, the accrued bonus is adjusted through personnel expenses on the basis of the actual degree of achievement of the relevant profit figure.

The equity-settled portion of the bonus for financial year 2018 was calculated and accounted for on the basis of the data available as at the reporting date regarding the degree of achievement of the consolidated result. The number of shares to be granted cannot yet be established precisely at the reporting date, as that number is determined based on the quoted price as at the payment date (mid-April 2019). If the shares had been granted as at year-end, a total of 7,150 shares would have been distributed.

BONUS PROGRAMME FOR THE BOARD OF DIRECTORS

No bonus programme exists for members of the Board of Directors. Their remuneration comprises an annual lump sum plus payments for attending meetings.

OPTION PROGRAMME

No option programme exists at Flughafen Zürich AG.

4 OTHER OPERATING EXPENSES

(CHF 1,000)	2018	2017
Zurich Protection & Rescue Services	20,973	20,830
PRM costs (service costs of service providers)	12,111	11,768
Other operating costs	9,235	7,478
Insurance	3,599	3,201
Cleaning by external contractors, incl. snow clearing	3,200	3,030
Costs for own car park	2,116	2,201
Communication costs	2,138	1,817
Passenger services	1,382	1,246
Total other operating expenses	**54,754**	**51,571**

5 OTHER INCOME AND EXPENSES

(CHF 1,000)	2018	2017
Capitalised expenditure	14,450	14,649
Other income	1,020	5,101
Capitalised expenditure and other income	**15,470**	**19,750**
Expenses for construction projects as part of concession arrangements	–40,698	–3,132
Other expenses	–63,841	–2,168
Expenses for construction projects and other expenses	**–104,539**	**–5,300**

Capitalised expenditure of CHF 14.5 million (2017: CHF 14.6 million) primarily comprises fees for the company’s architects and engineers as well as for project managers representing the client.

In the previous year, “Other income” included a payment of CHF 4.8 million in connection with the liquidation of Swissair in debt restructuring proceedings.

The expenses for construction projects as part of concession arrangements amounting to CHF 40.7 million (2017: CHF 3.1 million) are the result of investments made in infrastructure at the airports in Brazil and Chile. The corresponding counter-item can be found under note 2, Revenue.

“Other expenses” include the CHF 57.6 million increase in the provision for sound insulation and resident protection measures that is recognised in profit or loss (see note 19, Provision for formal expropriations plus sound insulation and resident protection). Also included are losses on asset disposals (CHF 1.3 million), the share of the costs for the new shooting range of the Canton of Zurich police force (CHF 3.0 million) and expenses from variable concession payments relating to international business (CHF 1.4 million).

6 FINANCE RESULT

(CHF 1,000)	2018	2017
Interest expenses on debentures and non-current loans	–10,960	–12,178
Net interest expenses on defined benefit obligations	–796	–1,072
Interest expenses on finance lease liabilities	–135	–195
Other interest expenses	–1,375	–710
Losses on financial assets of Airport of Zurich Noise Fund	–6,205	–2,222
Present value adjustment on provision for formal expropriations plus sound insulation and resident protection	–1,859	–1,355
Present value adjustment on liabilities from concession arrangements	–3,123	–843
Foreign exchange losses	0	–1,493
Other finance costs	–2,694	–4,063
Total finance costs	**–27,147**	**–24,131**
Interest income on financial assets of Airport of Zurich Noise Fund	621	3,183
Other interest income	3,255	1,287
Foreign exchange gains	50	650
Other finance income	157	687
Total finance income	**4,083**	**5,807**
Finance result	**–23,064**	**–18,324**

Thanks to the debenture refinanced on more favourable terms in May 2017, interest expenses on debentures and non-current loans declined by CHF 1.2 million year on year to CHF 11.0 million.

Under the new requirements in IFRS 9 Financial Instruments, losses on financial assets of the Airport of Zurich Noise Fund (some of them unrealised) must be recognised in profit or loss (previously recognised in equity). This was a factor contributing to the increase in the losses from CHF 2.2 million to CHF 6.2 million.

The adjustment to the present value of the provision for formal expropriations plus sound insulation and resident protection resulted in an expense of CHF 1.9 million in the reporting period (2017: CHF 1.4 million). An additional expense of CHF 3.1 million (2017: CHF 0.8 million) was incurred due to the adjustment to the present value of liabilities from concession arrangements in Brazil and Chile.

The CHF 2.0 million increase in other interest income compared with the previous year is due primarily to higher average bank balances of the group companies in Brazil and Chile.

7 GAIN ON DISPOSAL OF ASSETS HELD FOR SALE

On 15 April 2016, Flughafen Zürich AG had signed an agreement for the sale of its 5% interest in Bangalore International Airport Ltd. (BIAL), the owner and operator of the international airport in the Indian city of Bengaluru, at a price of USD 48.9 million. At that date, the interest in BIAL was for the last time measured using the equity method applied up until then and presented as a "Non-current asset held for sale" within current assets on Flughafen Zürich AG's consolidated balance sheet. The sale transaction was completed on 24 March 2017. The disposal resulted in a pre-tax gain of CHF 36.3 million.

8 INCOME TAX

(CHF 1,000)	2018	2017
Taxes for current year	78,175	73,027
Taxes for prior years	–94	–3,610
Total current income tax	**78,081**	**69,417**
Deferred income tax on changes in temporary differences	–16,788	–167
Total deferred income tax	**–16,788**	**–167**
Total income tax	**61,293**	**69,250**

Income tax can be analysed as follows:

(CHF 1,000)	2018	2017
Profit before tax	299,134	354,777
Tax expense based on the statutory tax rate of 20.5% applicable at the parent company (2017: 20.5%)	61,286	72,686
Prior-period adjustments	–94	–2,787
Effect of share of results of associates	–124	–932
Current-year losses for which no deferred tax assets were recognised	1,122	343
Effect of application of different income tax rates	404	–138
Miscellaneous items	–1,301	78
Total income tax	**61,293**	**69,250**

9 PROPERTY, PLANT AND EQUIPMENT

(CHF million)	Land	Engineering structures	Buildings	Projects in progress	Movables	Leased assets	Total
Cost							
Balance as at 1 January 2017	**108.7**	**1,689.2**	**4,288.6**	**147.4**	**275.7**	**21.8**	**6,531.4**
Additions	10.0			136.9			**146.9**
Disposals		–3.4	–87.2		–18.7		**–109.3**
Transfers		26.2	110.3	–161.5	16.4		**–8.6**
Change in consolidation scope					0.1		**0.1**
Balance as at 31 December 2017	**118.7**	**1,712.0**	**4,311.7**	**122.8**	**273.5**	**21.8**	**6,560.5**
Balance as at 1 January 2018	**118.7**	**1,712.0**	**4,311.7**	**122.8**	**273.5**	**21.8**	**6,560.5**
Additions				194.7			**194.7**
Disposals		–3.6	–54.6		–16.3		**–74.5**
Transfers		50.6	59.9	–132.7	15.8		**–6.4**
Reclassification		–61.0	61.0				**0.0**
Foreign exchange differences			–0.1		–0.1		**–0.2**
Balance as at 31 December 2018	**118.7**	**1,698.0**	**4,377.9**	**184.8**	**272.9**	**21.8**	**6,674.1**
Depreciation, amortisation							
Balance as at 1 January 2017	**0.0**	**–822.6**	**–2,728.8**	**0.0**	**–194.8**	**–16.6**	**–3,762.8**
Additions		–60.8	–156.4		–15.6	–1.4	**–234.2**
Disposals		2.8	86.6		18.4		**107.8**
Balance as at 31 December 2017	**0.0**	**–880.6**	**–2,798.6**	**0.0**	**–192.0**	**–18.0**	**–3,889.2**
Balance as at 1 January 2018	**0.0**	**–880.6**	**–2,798.6**	**0.0**	**–192.0**	**–18.0**	**–3,889.2**
Additions		–62.2	–150.7		–15.2	–1.4	**–229.5**
Disposals		3.5	53.7		15.6		**72.8**
Reclassification		40.9	–40.9				**0.0**
Balance as at 31 December 2018	**0.0**	**–898.4**	**–2,936.5**	**0.0**	**–191.6**	**–19.4**	**–4,045.9**
Government subsidies and grants							
Balance as at 1 January 2017	**0.0**	**–10.2**	**–1.1**	**–1.1**	**–0.1**	**0.0**	**–12.5**
Additions				–1.3			**–1.3**
Disposals		0.7	0.1		0.3		**1.1**
Transfers		–1.4	–0.1	2.4	–0.9		**0.0**
Balance as at 31 December 2017	**0.0**	**–10.9**	**–1.1**	**0.0**	**–0.7**	**0.0**	**–12.7**
Additions				–0.7			**–0.7**
Disposals		0.8	0.1		0.3		**1.2**
Transfers			–0.7	0.7			**0.0**
Balance as at 31 December 2018	**0.0**	**–10.1**	**–1.7**	**0.0**	**–0.4**	**0.0**	**–12.2**
Net carrying amount as at 31 December 2017	**118.7**	**820.5**	**1,512.0**	**122.8**	**80.8**	**3.8**	**2,658.6**
Net carrying amount as at 31 December 2018	**118.7**	**789.5**	**1,439.7**	**184.8**	**80.9**	**2.4**	**2,616.0**

PROJECTS IN PROGRESS

In the past financial year, Flughafen Zürich AG invested CHF 194.7 million in projects in progress (2017: CHF 136.9 million). The biggest items comprise the following projects:

- Expansion and refurbishment of the baggage sorting system (CHF 33.0 million)
- Creation of multiple-entry runway 16 and high-speed runway 28 (CHF 17.6 million)
- Expansion of the south-side aircraft stands (CHF 17.1 million)

LEASE AIRCRAFT ENERGY SUPPLY SYSTEM AND BAGGAGE SORTING AND HANDLING SYSTEM

In December 2001, Flughafen Zürich AG concluded a framework lease agreement for financing the aircraft energy supply system and the baggage sorting and handling system, which was then under construction. On 1 August 2003, since the systems were near completion, a first tranche of each of the definitive lease agreements totalling CHF 84.5 million was put into effect. Between 2004 and 2014, a further eleven tranches totalling CHF 28.2 million were added. Based on their form and content, both the framework agreement and the definitive lease agreements are classed as finance leases and have therefore been recognised in the balance sheet. The leased facilities available for use have been depreciated with effect from their date of completion. The lease for the baggage sorting and handling system ended on 31 December 2016. The finance lease for the aircraft energy supply system runs until 31 July 2020.

DEPRECIATION

Depreciation of property, plant and equipment totalling CHF 229.5 million was offset against government grants and subsidies recognised in the income statement in the amount of CHF 1.2 million.

IMPAIRMENT

Flughafen Zürich AG voluntarily carries out a calculation at company level on a yearly basis to determine whether there is any indication that property, plant and equipment and intangible assets (see note 11, Intangible assets) may be impaired. The calculation is based on the expected future free cash flows of Flughafen Zürich AG and various assumptions regarding future trends (e.g. passenger and traffic volumes, investments, the hub status of Zurich Airport and the discount rate). The calculation as at 31 December 2018 did not identify any indications of impairment.

10 INVESTMENT PROPERTY

(CHF 1,000)	Land	Project and construtiion costs	Total investment property
Cost			
Balance as at 1 January 2017	**950**	**119,186**	**120,136**
Additions	0	92,123	**92,123**
Balance as at 31 December 2017	**950**	**211,309**	**212,259**
Balance as at 1 January 2018	**950**	**211,309**	**212,259**
Additions	0	95,387	**95,387**
Balance as at 31 December 2018	**950**	**306,696**	**307,646**
Depreciation, amortisation			
Balance as at 1 January 2017	**0**	**0**	**0**
Additions	0	–352	**–352**
Balance as at 31 December 2017	**0**	**–352**	**–352**
Balance as at 1 January 2018	**0**	**–352**	**–352**
Additions	0	–240	**–240**
Balance as at 31 December 2018	**0**	**–592**	**–592**
Net carrying amount as at 31 December 2017	**950**	**210,957**	**211,907**
Net carrying amount as at 31 December 2018	**950**	**306,104**	**307,054**

THE CIRCLE PROJECT

On 5 February 2015, Flughafen Zürich AG and Swiss Life AG notarised the purchase agreement for the share of land for THE CIRCLE and registered it for entry in the Land Register, thereby establishing the co-ownership structure between the two parties provided for in the financing agreements, in which Flughafen Zürich AG has a 51% interest and Swiss Life AG a 49% interest. Flughafen Zürich AG then transferred the project costs incurred for THE CIRCLE up until that date to the co-ownership structure.

Based on the nature of the contractual arrangement, the co-ownership structure for THE CIRCLE is classified as a joint operation in accordance with IFRS 11. The share of the rights to the assets and the share of the obligations for the liabilities of the co-ownership structure are therefore recognised and presented in the relevant line items in the consolidated financial statements of Flughafen Zürich AG.

The share of the property under construction for THE CIRCLE is classified as investment property in accordance with IAS 40. In this context, Flughafen Zürich AG has decided to apply the cost model. The land recognised for THE CIRCLE in the amount of approximately CHF 1.0 million represents the purchase cost of the share of the plot of land on which the project will be implemented. “Project and construction costs” in the amount of CHF 306.1 million (2017: CHF 211.0 million) include the share of the production costs capitalised to date.

The fair value of THE CIRCLE was CHF 373.3 million at the reporting date (2017: CHF 242.6 million). The value was calculated by an external expert using the discounted cash flow method (level 3). Under this method, the fair value is determined on the basis of the total expected future net income (before tax, interest payments, depreciation and amortisation) discounted to the present date. A risk-adjusted discount rate is set depending on the risks and rewards and in line with market rates.

11 INTANGIBLE ASSETS

(CHF 1,000)	Intangible asset from right of formal expropriation	Investments in airport operator projects	Other intangible assets
Cost			
Balance as at 1 January 2017	**188,558**	**0**	**76,357**
Additions	0	51,294	434
Disposals	0	0	–425
Transfer	0	0	8,596
Changes in consolidation scope	0	25,800	0
Balance as at 31 December 2017	**188,558**	**77,094**	**84,962**
Balance as at 1 January 2018	**188,558**	**77,094**	**84,962**
Additions	0	66,763	3,937
Disposals	–34,529	0	–2,142
Transfer	0	0	6,378
Foreign exchange differences	0	–13,382	–758
Balance as at 31 December 2018	**154,029**	**130,475**	**92,377**
Depreciation, amortisation			
Balance as at 1 January 2017	**–52,935**	**0**	**–65,951**
Additions	–3,941	–1,901	–4,390
Disposals	0	0	391
Balance as at 31 December 2017	**–56,876**	**–1,901**	**–69,950**
Balance as at 1 January 2018	**–56,876**	**–1,901**	**–69,950**
Additions	–3,416	–5,586	–6,804
Disposals	0	0	2,142
Foreign exchange differences	0	2,644	120
Balance as at 31 December 2018	**–60,292**	**–4,843**	**–74,492**
Net carrying amount as at 31 December 2017	**131,682**	**75,193**	**15,012**
Net carrying amount as at 31 December 2018	**93,737**	**125,632**	**17,885**

INTANGIBLE ASSET FROM RIGHT OF FORMAL EXPROPRIATION

With the award of the operating licence, Flughafen Zürich AG was also granted a right of formal expropriation in respect of property owners exposed to aircraft noise. This right of formal expropriation was granted on condition that the airport operator bears the costs associated with compensation payments and is recognised as an intangible asset at the date when the probable total cost can be estimated based on final-instance court rulings, so that the cost can be reliably estimated in accordance with IAS 38.21.

As a result of the Swiss Federal Supreme Court rulings in the first half of 2018 in test cases regarding cooperative ownership, Flughafen Zürich AG was able, as at 30 June 2018, to undertake a reappraisal of the outstanding cost of compensation for formal expropriations. Based on the recalculation, the provision for formal expropriations was reduced by CHF 34.5 million (see note 19, Provision for formal expropriations plus sound insulation and resident protection). At the same time, the intangible asset from the right of formal expropriation was reduced by the same amount.

As at 31 December 2018, Flughafen Zürich AG has therefore recognised an intangible asset from the right of formal expropriation in the amount of CHF 93.7 million (2017: CHF 131.7 million). This is amortised using the straight-line method over the remaining term of the operating licence (i.e. until May 2051).

INVESTMENTS IN AIRPORT OPERATOR PROJECTS

The investments in airport operator projects in the amount of CHF 125.6 million (2017: CHF 75.2 million) consist of concession rights which, due to the application of IFRIC 12, comprise minimum concession payments recognised as assets and investments made. They relate to the expansion and operation of the Chilean airports in Antofagasta and Iquique (CHF 30.4 million; 2017: CHF 24.4 million), in which Flughafen Zürich AG holds a controlling interest via its subsidiary A-port Chile S.A., as well as the expansion and operation of the Brazilian airport in Florianópolis (CHF 95.2 million; 2017: CHF 50.8 million) through the subsidiary Concessionária do Aeroporto Internacional de Florianópolis S.A. The obligations of CHF 26.1 million (2017: CHF 11.7 million) relating to the corresponding concessions are recognised as current and non-current liabilities (see note 18, Financial liabilities).

IMPAIRMENT

Flughafen Zürich AG carries out a calculation at company level on a yearly basis to determine whether there is any indication that property, plant and equipment (see note 9, Property, plant and equipment) and intangible assets may be impaired. The calculation is based on the expected future free cash flows of Flughafen Zürich AG and various assumptions regarding future trends (e.g. passenger and traffic volumes, investments, the hub status of Zurich Airport and the discount rate). The calculation as at 31 December 2018 did not identify any indications of impairment.

12 INVESTMENTS IN ASSOCIATES

(CHF 1,000)	31.12.2018	31.12.2017
Sociedade de Participação no Aeroporto de Confins S.A., Belo Horizonte (Brazil) Share capital: BRL 474 million (previous year BRL 399 million)/Equity share 25.0% (previous year 25.0%)	12,323	13,518
Administradora Unique IDC C.A., Porlamar (Venezuela) Share capital: VEB 25 million (previous year VEB 25 million)/Equity share 49.5% (previous year 49.5 %)	0	0
Aeropuertos Asociados de Venezuela C.A., Porlamar (Venezuela) Share capital: VEB 10 million (previous year VEB 10 million)/Equity share 49.5% (previous year 49.5 %)	0	0
Total investments in associates	**12,323**	**13,518**

BRAZIL

Alongside Brazilian company CCR, Flughafen Zürich AG holds a 25% interest in Sociedade de Participação no Aeroporto de Confins S.A., a private consortium which in turn controls 51% of the local airport operator Concessionary do Aeroporto Internacional de Confins S. A. The remaining 49% of the shares are held by the state-owned Infraero. As a consequence, since 2014 Flughafen Zürich AG and CCR have been responsible for the operation and expansion of the international airport in Belo Horizonte in the Brazilian state of Minas Gerais. The concession agreement is for 30 years and prescribes certain infrastructure expansion during the first few years. After only 14 months' construction time, a new terminal commenced operation at the end of 2016. There is an Operations, Management & Service Agreement (OMSA) with the licence holder. The company receives revenue from this service agreement. Flughafen Zürich AG appoints the retail and flight operations managers.

VENEZUELA

In 2010, Flughafen Zürich AG and its consortium partner Unique IDC turned to the International Centre for Settlement of Investment Disputes (ICSID) in Washington D.C. in the matter of the airport expropriated in Venezuela (Isla de Margarita). This step is in compliance with the investment protection treaty between Venezuela, Switzerland and Chile. The ICSID reached its decision in November 2014, requiring the Bolivarian Republic of Venezuela to reimburse the consortium the costs incurred for the proceedings and project plus a compensation payment of around USD 19.5 million as well as interest incurred up until receipt of payment (around USD 22.2 million accrued as at 31 December 2018). Flughafen Zürich AG is entitled to 50% of the total amount of the payments. Prior to the deadline set for 18 March 2015, Venezuela appealed to the ICSID to set aside the tribunal's decision on the grounds of an infringement of procedural rules. A decision is expected in the next few months. Regardless of the outcome the tribunal's decision is already binding and enforceable. The value of this holding has been fully impaired.

ADDITIONAL DISCLOSURES

The following table contains the summarised financial information for the associate Sociedade de Participação no Aeroporto de Confins S.A. The amounts correspond to those in the associate's financial statements prepared in accordance with IFRSs.

SOCIEDADE DE PARTICIPAÇÃO NO AEROPORTO DE CONFINS S. A.

(CHF 1,000)	31.12.2018	31.12.2017
Revenue	96,299	122,219
Loss	–17,316	–12,272
Comprehensive income	–17,316	–12,272
Non-current assets	607,805	676,421
Current assets	31,669	40,335
Non-current liabilities	–498,857	–442,898
Current liabilities	–44,089	–167,849
Equity attributable to non-controlling interests	–47,238	–51,936
Net equity	49,290	54,073
Equity share	25.0%	25.0%
Carrying amount of interest in associate	**12,323**	**13,518**

13 FINANCIAL ASSETS OF THE AIRPORT OF ZURICH NOISE FUND

(CHF 1,000)	31.12.2018	31.12.2017
Current financial assets of Airport of Zurich Noise Fund	21,967	76,578
Non-current financial assets of Airport of Zurich Noise Fund	377,241	360,525
Total financial assets of Airport of Zurich Noise Fund	**399,208**	**437,103**

The financial assets of the Airport of Zurich Noise Fund consist mostly of CHF-denominated bonds and a mixed investment fund. The investment horizon is based on the expected obligation to make payments from the Airport of Zurich Noise Fund and averages around four years. Interest on bonds was between 0.00% and 2.625% in 2018 (2017: between 0.00% and 2.625%). The funds are managed by professional financial institutions (see note 6, Finance result, and note 24.1 a) Financial risk management, i) Credit risk).

14 TRADE RECEIVABLES

(CHF 1,000)	31.12.2018	31.12.2017
Trade receivables, gross 1)	102,610	110,663
Allowance for expected credit loss	–586	–761
Trade receivables, net	**102,024**	**109,902**

1) Trade receivables include an amount of CHF 21.8 million due from Swiss (2017: CHF 27.1 million). In the period between the balance sheet date and the preparation of the 2018 annual report, Swiss had paid the outstanding amount arising from airport charges in full as at 31 December 2018.

Geographical distribution of trade receivables:

(CHF 1,000)	31.12.2018	31.12.2017
Switzerland	35,013	41,927
Europe	9,110	10,004
Other	7,670	6,031
Total aviation	**51,793**	**57,962**
Switzerland	44,918	50,400
Europe	67	247
Latin America	5,785	1,973
Other	47	81
Total non-aviation	**50,817**	**52,701**
Total trade receivables, gross	**102,610**	**110,663**

The expected credit losses in the case of trade receivables for both the reporting period and the previous year are as follows:

(CHF 1,000)					31.12.2018
	Not past due	Past due, 0 to 30 days	Past due, 31 to 60 days	Past due, more than 60 days	Total
Expected credit loss rate (in %)	0.3	1.5	2.5	5.0	
Trade receivables, gross	88,039	9,683	2,050	2,838	102,610
Expected credit loss	**–248**	**–145**	**–51**	**–142**	**–586**

(CHF 1,000)					31.12.2017
	Not past due	Past due, 0 to 30 days	Past due, 31 to 60 days	Past due, more than 60 days	Total
Expected credit loss rate (in %)	0.3	1.5	2.5	4.0	
Trade receivables, gross	88,719	12,269	1,428	8,247	110,663
Expected credit loss	–222	–179	–36	–325	–761

In almost all cases, receivables not past due concern long-standing client relationships. Based on past experience, Flughafen Zürich AG does not expect any additional credit losses.

15 OTHER RECEIVABLES AND PREPAID EXPENSES

(CHF 1,000)	31.12.2018	31.12.2017
Services not yet invoiced	14,686	11,119
Accrued interest on interest-bearing debt instruments Airport of Zurich Noise Fund	380	566
Prepaid services	61,712	21,923
Prepaid expenses and accruals	**76,778**	**33,608**
Tax receivables (VAT and withholding tax)	11,812	5,600
Other receivables	627	1,712
Total other receivables and prepaid expenses	**89,217**	**40,920**
of which financial instruments	15,066	11,685
of which other receivables and prepaid expenses	74,151	29,235

The interest from the liquid funds of the Airport of Zurich Noise Fund that were invested separately (see also note 13, Financial assets of the Airport of Zurich Noise Fund and note 20, Airport of Zurich Noise Fund), was recognised on an accrual basis.

All services provided in the reporting period were invoiced between the reporting date and the preparation of the annual report. There are no past due receivables reported in the above items that would require the recognition of an allowance.

16 CASH AND CASH EQUIVALENTS AND FIXED-TERM DEPOSITS

	31.12.2018		31.12.2017	
(CHF 1,000)	Total	of which AZNF	Total	of which AZNF
Cash on hand	213	0	227	0
Cash at banks and in postal accounts	273,288	34,242	225,346	20,184
Fixed-term deposits [1]	122,371	0	89,042	0
Total cash and cash equivalents	**395,872**	**34,242**	**314,615**	**20,184**
Current fixed-term deposits [2]	149,167	0	230,000	0
Non-current fixed-term deposits [2]	37,500	0	41,667	0
Total fixed-term deposits	**186,667**	**0**	**271,667**	**0**

1) Due within 90 days from date of acquisition.
2) Due after 90 days from date of acquisition.

17 EQUITY AND RESERVES

(Number of shares)	Issued registered shares (nominal value, CHF 10)	Treasury shares	Total shares in circulation
Balance as at 1 January 2017	**30,701,875**	**5,713**	**30,696,162**
Purchase of treasury shares		2,349	–2,349
Distribution of treasury shares to employees and third parties		–5,968	5,968
Balance as at 31 December 2017	**30,701,875**	**2,094**	**30,699,781**
Purchase of treasury shares		5,185	–5,185
Distribution of treasury shares to employees and third parties		–5,624	5,624
Balance as at 31 December 2018	**30,701,875**	**1,655**	**30,700,220**

SHARE RIGHTS

The holders of registered shares are entitled to participate at the General Meeting of Shareholders and cast one vote per share.

TREASURY SHARES

Treasury shares are distributed to employees and third parties under the bonus programme; see note 3, Personnel expenses, and note 24.5, Related parties. Treasury shares are used for the bonus programme and are held as treasury stock.

FAIR VALUE RESERVE

Until 31 December 2017 the fair value reserve comprised the cumulative fair value changes in available-for-sale financial assets of the Airport of Zurich Noise Fund.

TRANSLATION RESERVE

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations and associates.

EARNINGS PER SHARE

Basic and diluted earnings per share are calculated from the results and share data as at 31 December, which are composed as follows:

	2018	2017
Profit attributable to shareholders of Flughafen Zürich AG in CHF	237,832,160	285,224,564
Weighted average number of outstanding shares	30,691,512	30,698,833
Effect of dilutive shares	8,873	7,046
Adjusted weighted average number of outstanding shares	30,700,385	30,705,879
Basic earnings per share (CHF)	7.75	9.29
Diluted earnings per share (CHF)	7.75	9.29

DIVIDEND DISTRIBUTION LIMIT

The amount available for payment as a dividend is based on the available retained earnings of Flughafen Zürich AG and is determined in accordance with the provisions of the Swiss Code of Obligations (CO). As at the reporting date, reserves amounting to CHF 153.9 million (2017: CHF 154.0 million) were subject to a restriction on distribution under the provisions of commercial law.

MAJOR SHAREHOLDERS AND SHAREHOLDER STRUCTURE

The shareholder structure as at 31 December was as follows:

	2018	2017
Public sector	38.60%	38.60%
Private individuals	6.50%	4.69%
Companies	4.60%	4.55%
Pension funds	2.09%	1.96%
Financial institutions (including nominees)	25.78%	26.58%
Balance available and non-registered shareholders	22.43%	23.62%
Total	**100.00%**	**100.00%**
Number of shareholders	13,592	9,862

As at the reporting date, the following shareholders or groups of shareholders held more than 5% of the voting rights:

	2018	2017
Canton of Zurich	33.33%	33.33%
City of Zurich	5.00%	5.00%

18 FINANCIAL LIABILITIES

(CHF 1,000)	31.12.2018	31.12.2017
Debentures	1,050,244	1,050,134
Non-current liabilities from concession arrangements	25,711	11,665
Non-current lease liabilities	1,655	3,010
Other non-current financial liabilities	7,860	11,751
Non-current financial liabilities	**1,085,470**	**1,076,560**
Debentures	38,204	0
Current liabilities from concession arrangements	438	0
Current lease liabilities	1,355	1,752
Other current financial liabilities	2,660	2,967
Current financial liabilities	**42,657**	**4,719**
Total financial liabilities	**1,128,127**	**1,081,279**

In financial year 2018, a total of CHF 1.8 million (2017: CHF 1.7 million) of the outstanding lease liabilities was repaid in accordance with the existing lease agreements.

Other current and non-current financial liabilities include bank loans taken out by the subsidiaries in Brazil and Chile.

Composition of non-current financial liabilities as at the reporting date:

	as at 31.12.2018	as at 31.12.2018				
Financial liabilities	Nominal value	Carrying amount	Duration	Interest rate	Early amortisation	Interest payment date
	(CHF 1,000)	(CHF 1,000)				
Debenture	300,000	299,816	2012 – 2020	1.250%	no	3.7.
Debenture	400,000	399,792	2013 – 2023	1.500%	no	17.4.
Debenture	350,000	350,636	2017 – 2029	0.625%	no	24.5.
Non-current liabilities from concession arrangements	52,495	25,711	2023 – 2047	n/a	no	n/a
Non-current lease liabilities	1,195	1,655	2019 – 2020	3.476%	no	1st of each month
Other non-current financial liabilities	7,860	7,860	2022	6.200%	no	n/a
Total non-current financial liabilities		**1,085,470**				

External financing is subject to standard guarantees and covenants, which were complied with as at the reporting date.

In addition, unused credit facilities at the reporting date amounted to a total of CHF 239.9 million (see note 24.1 a) Financial risk management, ii) Liquidity risk).

The maturities of financial liabilities are shown in the table below:

(CHF 1,000)	31.12.2018	31.12.2017
Due within 1 year	42,657	4,719
Due between 1 and 5 years	701,497	314,455
Due in more than 5 years	383,973	762,105
Total financial liabilities	**1,128,127**	**1,081,279**

Financial liabilities changed as follows as a result of cash and non-cash changes:

			Non-cash changes			
(CHF 1,000)	31.12.2017	Cash flows	Increase(+)/ decrease(-)	Foreign exchange movements	Value changes	31.12.2018
Debentures	1,050,134				110	1,050,244
Non-current liabilities from concession arrangements	11,665		16,656	–2,610		25,711
Non-current lease liabilities	3,010		–1,355			1,655
Other non-current financial liabilities	11,751		–2,822	–1,069		7,860
Non-current financial liabilities	**1,076,560**	**0**	**12,479**	**–3,679**	**110**	**1,085,470**
Debentures	0	40,582		–2,378	0	38,204
Current liabilities from concession arrangements	0		74	364		438
Current lease liabilities	1,752		–397			1,355
Other current financial liabilities	2,967	9	7	–323		2,660
Current financial liabilities	**4,719**	**40,591**	**–316**	**–2,337**	**0**	**42,657**
Total financial liabilities	**1,081,279**	**40,591**	**12,163**	**–6,016**	**110**	**1,128,127**

OVERVIEW OF LEASE LIABILITIES

The lease liabilities shown below primarily include the lease agreement for the aircraft energy supply system outlined in note 9, Property, plant and equipment. In this case, the interest rate on the lease liability was 3.476% as at the reporting date.

(CHF 1,000)	31.12.2018	31.12.2017
Future minimum lease payments		
Due within 1 year	1,887	1,887
Due between 1 and 5 years	1,207	3,094
Due in more than 5 years	0	0
Total future minimum lease payments	**3,094**	**4,981**
Future interest payments	–84	–219
Present value of lease liabilities	**3,010**	**4,762**
Due within 1 year	1,815	1,752
Due between 1 and 5 years	1,195	3,010
Due in more than 5 years	0	0

19 PROVISION FOR FORMAL EXPROPRIATIONS PLUS SOUND INSULATION AND RESIDENT PROTECTION

(CHF 1,000)	Formal expropriations	Sound insulation and resident protection	Total
Balance as at 1 January 2017	**320,218**	**119,656**	**439,874**
Provision used 1)	–4,563	–17,319	–21,882
Decrease of provision	0	0	0
Present value adjustment 2)	968	387	1,355
Balance as at 31 December 2017	**316,623**	**102,724**	**419,347**
of which current (planned payment within 1 year)	34,140	15,980	50,120
of which non-current (planned payment from 1 year on)	282,483	86,744	369,227
Balance as at 1 January 2018	**316,623**	**102,724**	**419,347**
Provision used 1)	–8,263	–12,617	–20,880
Release of provision	–34,529	0	–34,529
Increase of provision	0	57,556	57,556
Present value adjustment 2)	1,352	507	1,859
Balance as at 31 December 2018	**275,183**	**148,170**	**423,353**
of which current (planned payment within 1 year)	21,273	9,983	31,256
of which non-current (planned payment from 1 year on)	253,910	138,187	392,097

1) The amount paid for formal expropriations only includes effective payments of compensation, and excludes other associated external costs in accordance with the regulations of the Airport of Zurich Noise Fund (see note 20, Airport of Zurich Noise Fund).
2) In the year under review as well as in the previous year, a reassessment was made of the discount rates and the expected cash outflows.

PROVISION FOR FORMAL EXPROPRIATIONS

In the first half of 2018, the Swiss Federal Supreme Court handed down two rulings in test cases regarding cooperative ownership. These court rulings enabled Flughafen Zürich AG to undertake a reappraisal of the outstanding cost of compensation for formal expropriations. Based on the recalculation, the total cost expected in relation to formal expropriations decreased from CHF 385.0 million to CHF 350.0 million. This enabled the provision for formal expropriations to be reduced by CHF 34.5 million (nominal amount: CHF 35.0 million) as at 30 June 2018. At the same time, the intangible asset from the right of formal expropriation was reduced by the same amount (see note 11, Intangible assets).

As at the reporting date, the estimated costs for formal expropriations amounted to CHF 350.0 million, of which CHF 72.1 million had already been paid out at that date. The outstanding costs of CHF 277.9 million (nominal amount) are stated at their present value of CHF 275.2 million in the consolidated financial statements for the period ended 31 December 2018. Due to a slight fall in interest rates, the interest rate used to adjust the present value of the nominal payment flows was 0.25% (2017: 0.35%). It is still expected that the payments can be completed by the end of 2025.

PROVISION FOR SOUND INSULATION AND RESIDENT PROTECTION

Flughafen Zürich AG is required to implement sound insulation measures in the area where it claims exemptions from noise limits (emission limit). In this context, the Federal Office of Civil Aviation (FOCA) has initiated a night-time noise abatement procedure. The area with exemptions under the Sectoral Aviation Infrastructure Plan adopted by the Federal Council on 23 August 2017 is to be extended. A provision for further costs of CHF 60.0 million, with a present value of CHF 57.6 million, was recognised in this context as at 30 June 2018 in addition to the cost of CHF 340.0 million previously estimated for sound insulation and resident protection (see note 5, Other income and expenses).

As at the reporting date, the estimated costs for sound insulation and resident protection measures amounted to CHF 400.0 million, of which CHF 249.1 million had already been paid out at that date. The outstanding costs of CHF 150.9 million (nominal amount) are stated at their present value of CHF 148.2 million in the consolidated financial statements for the period ended 31 December 2018. Despite a slight fall in interest rates, the interest rate used to adjust the present value of the nominal payment flows rose to 0.35% (2017: 0.25%), as the average maturity of the future payments increased due to the extended sound insulation programme. It is currently expected that the payments can be completed by the end of 2030 (previously 2025).

20 AIRPORT OF ZURICH NOISE FUND

Flughafen Zürich AG refinances all costs relating to aircraft noise through special noise charges based on the “costs-by-cause” principle. In the interest of transparency, costs and income relating to aircraft noise are recognised in a special statement for the Airport of Zurich Noise Fund. This is a liquidity-based fund statement. The fund statement presents the accumulated surplus or shortfall as at the reporting date arising from noise charges, less expenses for formal expropriations, sound insulation and resident protection measures, and noise-related operating costs. Its presentation is independent of the accounting policies. The key figures from the fund statement are shown in the table below.

If the fund statement shows an accumulated income surplus, this surplus is moved to a special investment account and invested by professional financial institutions, partly on the basis of a conservative, money market-oriented investment strategy and partly in a mixed investment fund. The income from these investments is credited to the fund statement.

The detailed fund statement is disclosed to a committee comprising representatives of Zurich Airport customers and the relevant authorities. The regulations of the Airport of Zurich Noise Fund and other information (including an overview of its financial performance) can be downloaded from the website.

The balance on the Airport of Zurich Noise Fund changed as follows in the reporting period:

(CHF 1,000)	2018	2017
Airport of Zurich Noise Fund as at 1 January	**443,505**	**457,924**
Revenue from noise charges	11,945	11,557
Costs for sound insulation and resident protection	–12,617	–17,320
Costs for formal expropriations 1)	–8,629	–5,133
Balance before operating costs and finance result	**434,204**	**447,028**
Operating costs	–3,402	–3,295
Interest income from financial assets	1,109	1,730
Adjustments to fair value and realised gains/losses on financial assets	–6,506	–1,958
Airport of Zurich Noise Fund as at 31 December	**425,405**	**443,505**

1) In addition to compensation payments for formal expropriations, this amount includes other associated external costs (in accordance with regulations of the Airport of Zurich Noise Fund; see note 19, “Provision for formal expropriations plus sound insulation and resident protection”).

Summary of assets invested for the Airport of Zurich Noise Fund:

(CHF 1,000)	31.12.2018	31.12.2017
Cash equivalents (see note 16, "Cash and cash equivalents")	34,242	20,184
Current financial assets of Airport of Zurich Noise Fund	21,967	76,578
Non-current financial assets of Airport of Zurich Noise Fund	377,241	360,525
Accrual/deferral towards Flughafen Zürich AG [1]	–8,045	–13,782
Total assets invested for Airport of Zurich Noise Fund	**425,405**	**443,505**

1) For accounting reasons, an asset or liability towards Flughafen Zürich AG arises as of the balance sheet date. This is compensated in the subsequent month, so the balance of liquid funds is restored.

The table below presents an overview of the maturities and credit ratings of the assets invested for the Airport of Zurich Noise Fund:

(CHF 1,000)	2019	2020	2021	2022	2023ff.	Total
Cash and cash equivalents	34,242					34,242
AAA	9,412	13,929	44,549	15,180	66,848	149,918
AA+/AA/AA–	10,552	1,841		10,119	68,061	90,573
A+/A/A–	2,003	1,573	3,912	20,242	35,591	63,321
Without rating					95,396	95,396
Other [1]	–8,045					–8,045
Total assets invested for Airport of Zurich Noise Fund	**48,164**	**17,343**	**48,461**	**45,541**	**265,896**	**425,405**
in %	11.3	4.1	11.4	10.7	62.5	100.0

1) For accounting reasons, an accrual (deferral) towards Flughafen Zürich AG arises as of the balance sheet date. This is compensated in the subsequent month, so the balance of liquid funds is restored.

21 DEFERRED TAX ASSETS AND LIABILITIES

In accordance with IAS 12.47, deferred tax assets and liabilities are calculated at the rate that is expected to apply when the asset is realised or the liability settled. Flughafen Zürich AG anticipates an unchanged tax rate of 20.5%. The expected tax rate is calculated on the basis of the applicable rate (rounded up or down) at the domicile of Flughafen Zürich AG and its subsidiaries.

The balance of deferred tax assets and liabilities changed as follows:

(CHF 1,000)	2018	2017
Deferred tax assets and liabilities, net as at 1 January	**–61,687**	**–49,409**
Deferred taxes on remeasurement of defined benefit obligations, recognised in OCI	2,617	–12,947
Change according to income statement	16,736	669
Deferred tax assets and liabilities, net as at 31 December	**–42,334**	**–61,687**
of which deferred tax assets	1,950	0
of which deferred tax liabilities	–44,284	–61,687

Deferred tax assets and liabilities are allocated to the following items:

	31.12.2018		31.12.2017	
(CHF 1,000)	Assets	Liabilities	Assets	Liabilities
Property, plant and equipment & other intangible assets		–15,011		–17,845
Investments in associates and other financial assets		–1,321		–1,321
Renovation fund		–35,588		–34,461
Aircraft noise		–24,224		–37,551
Financial liabilities issuing costs	50		28	
Employee benefit obligations	31,848		28,134	
Miscellaneous items	1,950	–38	1,329	
Deferred tax assets and liabilities, gross	**33,848**	**–76,182**	**29,491**	**–91,178**
Offsetting of assets and liabilities	–31,898	31,898	–29,491	29,491
Deferred tax assets and liabilities, net	**1,950**	**–44,284**	**0**	**–61,687**

22 EMPLOYEE BENEFITS

(CHF 1,000)	31.12.2018	31.12.2017
Net defined benefit obligations	–143,466	–125,560
Other long-term employee benefits	–11,889	–11,678
Employee benefit obligations	**–155,355**	**–137,238**

22.1 POST-EMPLOYMENT BENEFITS

Flughafen Zürich AG maintains the following employee benefit plans:

A) DEFINED BENEFIT PLANS

Affiliation contract with the BVK Employee Pension Fund of the Canton of Zurich (BVK)

The employees of Flughafen Zürich AG are affiliated to the BVK (Employee Pension Fund of the Canton of Zurich). The BVK is a multi-employer plan for employees of the Canton of Zurich and other employers. The BVK is registered with the Pensions and Trusts Supervisory Authority of the Canton of Zurich and is monitored by the latter.

The BVK Foundation Board, comprising nine employer and nine employee representatives, is the senior executive body of the Foundation and thus responsible for the strategic objectives and principles and for monitoring its management. The management is responsible for implementing legal requirements and the instructions given by the Foundation Board and its committees.

The BVK is subject to the provisions of the Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision (BVG) and its implementing provisions. The BVG defines the minimum insured salary, the minimum retirement credits and the return on them, and the conversion rate. As a result of these statutory provisions and the features of the plan, Flughafen Zürich AG, as an employer affiliated to the BVK, is exposed to actuarial risks such as investment risk, interest rate risk, disability risk and the risk of longevity.

Moreover, in accordance with the statutory provisions, the management body of the pension fund is also responsible for ensuring that restructuring measures are decided and implemented in the event of a shortfall, so that complete cover for future pension benefits is restored within a reasonable period. Among other things this includes restructuring payments in the form of additional contributions.

According to the applicable Swiss accounting regulations (Art. 44 BVV2), the liabilities of the BVK were funded at an (unaudited) level of 95.1% as at 31 December 2018 (2017: 100.0%).

Employees of Flughafen Zürich AG are insured with the BVK against the risks of old age, death and disability. The retirement benefits are determined on the basis of the individual retirement savings accounts at the time of retirement and are calculated by multiplying the balance of the savings account by the conversion rate stipulated in the regulations. The statutory retirement age is 65. Early retirement with a reduced conversion rate is possible as of the time the employee turns 60. Flughafen Zürich AG pays age-related contributions for all insured persons of between 6.0% and 17.4% of the insured salary and risk contributions of 1.2%. Up to the age of 20, only the risk contribution is incurred.

The assets originate from the BVK benefit plans. The investment strategy is defined by the BVK Foundation Board, based on the proposals and recommendations of the Board’s own investment committee, which in particular is responsible for managing the BVK’s assets. It prepares all the investment-related decisions taken by the Foundation Board and manages and supervises their implementation by the management. In addition, it is supported in the monitoring of the investment strategy and the investment process by an external investment controller.

The investment strategy (asset allocation) ranges within tactical bandwidths so as to enable a flexible response to current market situations. The aim is to manage the capital investments effectively and efficiently. The assets are well diversified. Compliance with the investment guidelines and the investment results are reviewed periodically.

Because the BVK, as a multi-employer plan, does not prepare separate financial statements for Flughafen Zürich AG, the company is also liable for liabilities of other affiliated employers, in accordance with the statutory provisions.

Explanation of the amounts in the consolidated financial statements
The actuarial calculation of the defined benefit obligations as at 31 December 2018 and the service cost was performed by independent actuaries using the projected unit credit method. The fair value of the plan assets was determined as at 31 December 2018 based on the information available at the date of preparation of the annual financial statements.

As no separate information was available for the affiliation contract with Flughafen Zürich AG for the plan assets or for the breakdown of assets into asset classes at the reporting date, assumptions had to be made on the basis of the available information for these purposes.

The net defined benefit obligations recognised in the balance sheet at the reporting date are as follows:

(CHF 1,000)	31.12.2018	31.12.2017
Present value of funded defined benefit obligations	–652,069	–642,408
Fair value of plan assets	508,603	516,848
Net defined benefit obligations recognised in the balance sheet	**–143,466**	**–125,560**

The defined benefit obligations changed as follows:

(CHF 1,000)	2018	2017
Present value of defined benefit obligations as at 1 January	**–642,408**	**–657,505**
Current service costs	–21,379	–22,912
Interest expenses on defined benefit obligations	–4,089	–3,867
Employee contributions	–11,504	–11,219
Benefits paid	30,674	29,477
Gain/(loss) due to experience	–16,181	–1,523
Gain/(loss) due to demographic assumption changes	0	20,122
Gain/(loss) due to financial assumption changes	12,818	5,019
Present value of defined benefit obligations as at 31 December	**–652,069**	**–642,408**

The weighted average duration of the defined benefit obligations at 31 December 2018 was 17.0 years (2017: 17.4 years).

The plan assets changed as follows:

(CHF 1,000)	2018	2017
Fair value of plan assets as at 1 January	**516,848**	**474,872**
Employer contributions	17,198	18,097
Employee contributions	11,504	11,219
Benefits paid	–30,674	–29,477
Administration expenses	–238	–258
Interest income on plan assets	3,364	2,858
Return on plan assets excluding amounts included in interest income	–9,399	39,537
Fair value of plan assets as at 31 December	**508,603**	**516,848**

The net defined benefit obligations changed as follows:

(CHF 1,000)	2018	2017
Net defined benefit obligations as at 1 January	**–125,560**	**–182,633**
Total charge recognised in the income statement	–22,342	–24,179
Total remeasurements recognised in other comprehensive income	–12,762	63,155
Employer contributions	17,198	18,097
Net defined benefit obligations as at 31 December	**–143,466**	**–125,560**

The company expects employer contributions of CHF 18.6 million for financial year 2019.

Analysis of the amounts recognised in the income statement:

(CHF 1,000)	2018	2017
Current service cost	–21,379	–22,912
Net interest expenses on defined benefit obligations	–725	–1,009
Administration expenses	–238	–258
Total charge recognised in the income statement	**–22,342**	**–24,179**

Analysis of the amounts recognised in other comprehensive income:

(CHF 1,000)	2018	2017
Actuarial gains/(losses) due to experience	–16,181	–1,523
Actuarial gains/(losses) due to changes in financial assumptions	0	20,122
Gain/(loss) due to demographic assumption changes	12,818	5,019
Return on plan assets excluding amounts included in net interest	–9,399	39,537
Total remeasurements recognised in other comprehensive income	**–12,762**	**63,155**

Assumptions used in actuarial calculations:

(in % or years)	2018	2017
Discount rate as at 31 December	0.80	0.65
Consumer price inflation	0.75	0.50
Expected rate of salary increases (incl. inflation)	1.50	1.00
Expected rate of pension increases	0.00	0.00
Life expectations at age 65 (years):		
Female (aged 45)	25.7	25.5
Female (aged 64)	23.8	23.7
Male (aged 45)	23.7	23.5
Male (aged 65)	21.8	21.7

The discount rate is based on CHF-denominated corporate bonds with an AA rating issued by domestic and foreign issuers and listed on SIX Swiss Exchange. The future rate of salary increase is the long-term historical average adjusted for management’s current estimates for the future. Based on the current financial status of the pension fund, no future increases in pensions are anticipated.

As at 31 December 2018, the life expectancy assumption used is the BVG 2015 mortality table with future improvements determined by calibrating the Continuous Mortality Investigation (‘CMI’) 2016 model to Swiss population data with a long-term longevity improvement rate of 1.50%. The first-time application of the CMI model as at 31 December 2017 resulted in a decrease in the defined benefit obligation of CHF 15.7 million, which was recognised in other comprehensive income as part of the remeasurement of the net defined benefit obligation.

Breakdown of plan assets by asset class:

(in %)	31.12.2018	31.12.2017
Asset category:		
Cash and cash equivalents	4.7	4.1
Shares	33.3	34.8
Bonds	36.8	34.9
Property	17.0	16.9
Other	8.2	9.3
Total	**100.0**	**100.0**

Sensitivities

The discount rate, the assumption regarding future salary increases and the return on retirement savings accounts are the significant actuarial assumptions in calculating the present value of the defined benefit obligations. A change in the assumptions of +0.25% or –0.25% has the following impact on the present value of the defined benefit obligations (DBO):

	2018 Effect on DBO		2017 Effect on DBO	
(CHF 1,000)	+0.25%	–0.25%	+0.25%	–0.25%
Discount rate	–24,127	26,083	–23,769	25,696
Expected salary increases	1,956	–1,304	1,285	–642
Interest rate on retirement savings accounts	1,956	–1,304	1,285	–642

The above sensitivity calculations are based on one assumption changing while the others remain unchanged. In practice, however, there are certain correlations between the individual assumptions. The same method was used to calculate the sensitivities and the defined benefit obligations recognised at the reporting date.

B) DEFINED CONTRIBUTION PLAN

An agreement exists with Zurich Insurance Company offering benefits to the pensioners of the former Flughafen-Immobilien-Gesellschaft (FIG). This group of beneficiaries did not transfer to the BVK. This is a defined contribution plan which is fully funded. Zurich Insurance Company is responsible for providing all future benefits.

22.2 OTHER LONG-TERM EMPLOYEE BENEFITS

Flughafen Zürich AG pays its employees loyalty bonuses on the basis of years of service, in accordance with the employment regulations of 1 January 2016. The corresponding provision of CHF 11.9 million (2017: CHF 11.7 million) was calculated based on the number of accumulated years of service which, at the reporting date, was 9.3 years (2017: 9.2 years).

23 OTHER CURRENT LIABILITIES, ACCRUALS AND DEFERRALS

(CHF 1,000)	31.12.2018	31.12.2017
Expenses not invoiced	28,964	37,457
Accrued interest on financial liabilities	7,373	7,373
Investments not invoiced	25,882	38,211
Other deferred income and accruals	27,886	13,464
Deferred income and accruals	**90,105**	**96,505**
Cross currency swap	5,624	6,088
Amounts due to personnel (holidays and overtime)	4,636	4,078
Deposits and advance payments by customers	7,819	9,225
Social security contributions	19	5,919
Other liabilities	3,556	4,083
Total other current liabilities, accruals and deferrals	**111,759**	**125,898**
of which financial liabilities carried at amortised cost	62,219	83,041
of which financial liabilities measured at fair value	5,624	6,088
of which other current liabilities, accruals and deferrals excluding financial instruments	43,916	36,769

24 FURTHER DETAILS

24.1 INFORMATION CONCERNING THE PERFORMANCE OF A RISK ASSESSMENT

Flughafen Zürich AG has set itself the strategic goal of maintaining a comprehensive risk management system and is committed to carrying out uniform and systematic risk management.

Risk management ensures that risks are approached systematically and given due consideration. It guarantees transparency over all the risks associated with the company’s business activities as well as continuous improvement and monitoring of the risk situation.

The risk management system is the tool used to manage corporate risk and consists of the following components:

- Risk policy objectives and principles
- Risk management organisation
- Risk management process (method for managing risk)
- Risk reporting
- Auditing and review of the risk management system

The risk management organisation forms the backbone of this system and includes the following units and functions:

BOARD OF DIRECTORS, MANAGEMENT BOARD AND CHIEF RISK OFFICER

The Board of Directors and Management Board have overall responsibility under Swiss company law for ensuring the group’s existence and profitability. The Board of Directors is responsible for overall oversight of risk management. The Chief Financial Officer also acts as the Management Board’s Chief Risk Officer.

RISK MANAGEMENT & INSURANCE DEPARTMENT

The central Risk Management & Insurance department is run by the Risk Manager, who reports to the Chief Risk Officer. This department supports the line units in all matters relating to risk management and is responsible for risk reporting as well as the operation and ongoing development of the risk management system.

LINE UNITS (DIVISIONS AND DEPARTMENTS)

As part of their role, the line units also bear responsibility for risks in their respective division or department and manage them within the framework of the risk management system (risk owner concept).

SPECIALIST UNITS

In consultation with the Risk Management & Insurance department, the specialist units perform specific risk-related cross-divisional functions within the group (liquidity management, occupational safety and health, information security, fire prevention, contingency planning, etc.).

In risk reporting, Flughafen Zürich AG describes in detail the most important business risks it has identified and assesses them for their probability of occurrence as well as for their potential operational and economic impact. Along with defining responsibilities, a plan of action is drawn up, containing specified target dates and outlining how the risks can be minimised. The risk management organisation continually monitors implementation of the defined measures.

A) FINANCIAL RISK MANAGEMENT

Due to the nature of its activities, Flughafen Zürich AG is exposed to various financial risks, including:

- i) Credit risk
- ii) Liquidity risk
- iii) Market risk (foreign currency and interest rate risks)

The following sections provide an overview of the extent of the various financial risks and the objectives, principles and processes relating to the assessment, monitoring and hedging of risks, as well as of the capital management of the group. Further information on financial risks can also be found in the corresponding notes.

i) Credit risk

Credit risk refers to the risk that Flughafen Zürich AG could incur losses if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Cash and cash equivalents, accruals, trade receivables and other financial assets are exposed to credit risk.

Flughafen Zürich AG invests its cash and cash equivalents and fixed-term deposits with major banks with a rating indicating their solvency. In addition, the company minimises other risks relating to cash and cash equivalents and fixed-term deposits in that it does not invest with a single bank, but with a variety of financial service providers.

As a rule, accruals as at the reporting date are invoiced within one month and subsequently monitored as part of trade receivables management.

With the exception of Swiss as the main client, credit risk is distributed over a broad clientele. Trade receivables include an amount of CHF 21.8 million due from Swiss (2017: CHF 27.1 million) (see note 14, Trade receivables). In the period between the reporting date and the preparation of the 2018 annual report, Swiss paid the outstanding amount arising from flight operations charges as at 31 December 2018 in full.

The exposure to credit risk primarily depends on the individual characteristics of each client. Risk assessments include a creditworthiness check, taking account of the client's financial circumstances, past experience and other factors. The maturity structure of trade receivables is normally examined on a weekly basis. Where necessary, terms of payment aimed at minimising risk (normally proforma invoicing) are applied, or security is requested (mainly in the form of bank guarantees).

The financial assets of the Airport of Zurich Noise Fund are invested by professional financial institutions, partly on the basis of a conservative, money market-oriented investment strategy (mainly in fixed-rate debt instruments) and partly in a mixed investment fund. Here, priority is given to preservation of value and flexibility with respect to early redemption of investments. The direct use of derivative financial instruments is not permitted. The investment horizon is based on the expected obligation to make payments from the Airport of Zurich Noise Fund and averages around four years. For bonds held directly, the minimum acceptable rating is BBB+ (Standard & Poor's) or Baa1 (Moody's), or an equivalent rating from another recognised rating agency (see note 20, Airport of Zurich Noise Fund).

The maximum exposure to credit risk corresponds to the carrying amounts of the individual financial assets. No guarantees or similar commitments exist that could give rise to an increase in the credit exposure above the respective carrying amounts. The maximum exposure to credit risk as at the reporting date was as follows:

(CHF 1,000)	31.12.2018	31.12.2017
Cash equivalents (excluding cash on hand)	395,659	314,388
Current and non-current fixed-term deposits	186,667	271,667
Non-current financial assets of Airport of Zurich Noise Fund	377,241	360,525
Trade receivables, net	102,024	109,902
Current financial assets of Airport of Zurich Noise Fund	21,967	76,578
Other receivables and prepaid expenses	15,066	11,685
Other financial assets	6,713	21
Total maximum exposure to credit risk	**1,105,337**	**1,144,766**

ii) Liquidity risk

Liquidity risk refers to the risk that Flughafen Zürich AG may not be able to meet its financial obligations on the due date.

Flughafen Zürich AG monitors liquidity risk via a prudent liquidity management process. Here it observes the principle that it must have sufficient flexibility and room for manoeuvre with respect to the availability of liquid funds at short notice. This means maintaining an adequate reserve of liquid funds, ensuring the availability of sufficient funds for financing purposes by securing adequate credit facilities, and being able to issue financial securities on the capital market. For this purpose, the company uses rolling liquidity planning that is based on expected cash flows and is periodically updated. Treasury is responsible for monitoring liquidity risk. As at the reporting date, Flughafen Zürich AG had the following unused credit facilities at its disposal:

(CHF 1,000)	Duration	31.12.2018	31.12.2017
Operating credit lines (committed credit lines)	31.12.2019	240,000	240,000
Total credit lines		**240,000**	**240,000**
Utilisation [1]		–60	–1,522
Total unused credit lines		**239,940**	**238,478**

1) Letter of credit and bank guarantees.

The table below shows the contractual maturities of financial liabilities (including interest payments) held by Flughafen Zürich AG:

(CHF 1,000) 31 December 2018	Carrying amount	Contractual cash flows	Due within 1 year	Due within 1 to 5 years	Due in more than 5 years
Debentures	1,088,448	1,149,608	49,983	736,500	363,125
Liabilities from concession arrangements	26,149	52,932	438	5,281	47,213
Lease liabilities	3,010	3,094	1,887	1,207	0
Other financial liabilities	10,520	10,520	2,660	7,860	0
Trade payables	53,625	53,625	53,625	0	0
Other current liabilities and accruals	90,105	90,105	90,105	0	0
Total non-derivative financial liabilities	**1,271,857**	**1,359,884**	**198,698**	**750,848**	**410,338**
Cross currency swap	5,624	5,624	1,406	4,218	0
Total derivative financial liabilities	**5,624**	**5,624**	**1,406**	**4,218**	**0**
Total	**1,277,481**	**1,365,508**	**200,104**	**755,066**	**410,338**

(CHF 1,000) 31 December 2017	Carrying amount	Contractual cash flows	Due within 1 year	Due within 1 to 5 years	Due in more than 5 years
Debentures	1,050,134	1,123,501	11,938	340,250	771,313
Liabilities from concession arrangements	11,665	46,576	0	0	46,576
Lease liabilities	4,762	4,981	1,887	3,094	0
Other financial liabilities	14,718	14,718	2,967	11,751	0
Trade payables	39,846	39,846	39,846	0	0
Other current liabilities and accruals	83,041	83,041	83,041	0	0
Total non-derivative financial liabilities	**1,204,166**	**1,312,663**	**139,679**	**355,095**	**817,889**
Cross currency swap	6,088	6,088	1,218	4,870	0
Total derivative financial liabilities	**6,088**	**6,088**	**1,218**	**4,870**	**0**
Total	**1,210,254**	**1,318,751**	**140,897**	**359,965**	**817,889**

iii) Market risk

Market risk refers to the risk that changes in market prices such as exchange rates and interest rates could have an impact on the finance result or the value of the financial instruments.

The objective of market risk management is to monitor and control such risks in order to ensure that they do not exceed a specified limit.

iiia) Currency risk

The functional currency of the consolidated financial statements of Flughafen Zürich AG is the Swiss franc (CHF). The group is exposed to foreign currency exchange movements primarily in respect of the Brazilian real (BRL), Chilean peso (CLP), US dollar (USD) und euro (EUR).

An appreciation or depreciation of the Swiss franc by 5% against the currencies below as at 31 December 2018 would have increased or reduced equity or profit by the amounts in the table below. This analysis assumes that all other variables – in particular interest rates – remain unchanged.

	Appreciation of CHF (plus 5%)		Depreciation of CHF (minus 5%)	
(CHF 1,000)	**Equity**	**Profit**	**Equity**	**Profit**
BRL	–3,549	0	3,549	0
CLP	–921	0	921	0
USD	0	–299	0	299
EUR	0	–41	0	41
31 December 2018	**–4,470**	**–340**	**4,470**	**340**
BRL	–2,194	0	2,194	0
CLP	–841	0	841	0
USD	0	–1,891	0	1,891
EUR	0	–145	0	145
31 December 2017	**–3,035**	**–2,036**	**3,035**	**2,036**

iiib) Interest rate risk

Interest rate risk can be divided into an interest-related cash flow risk, i.e. the risk that future interest payments could change due to fluctuations in the market interest rate, and an interest-related risk of a change in fair value, i.e. the risk that the fair value of a financial instrument could change due to fluctuations in the market interest rate.

Preference is normally given to external financing denominated in the functional currency, the Swiss franc, and subject to fixed interest rates. However, if external financing in foreign currencies is obtainable on more attractive terms, both the currency and the interest rate risk are hedged. In the case of such foreign currency transactions, the aim is to make fixed interest payments and repayments in the functional currency, the Swiss franc.

All non-current financing transactions have been concluded at a fixed interest rate. The interest rate risk on short-term variable advances is hedged on a case-by-case basis using interest rate swaps.

The financial assets of the Airport of Zurich Noise Fund are primarily invested in fixed-rate debt instruments and a mixed investment fund. The direct use of derivative financial instruments is not permitted in this context.

As at the reporting date, Flughafen Zürich AG's interest rate profile was as follows (interest-bearing financial instruments):

(CHF 1,000)	31.12.2018	31.12.2017
Current and non-current fixed-term deposits	186,667	271,667
Fixed-interest financial assets of Airport of Zurich Noise Fund	303,812	329,649
Fixed-interest financial instruments (assets)	**490,479**	**601,316**
Cash and cash equivalents	361,630	294,431
Cash and cash equivalents of Airport of Zurich Noise Fund	34,242	20,184
Variable-interest financial assets of Airport of Zurich Noise Fund	0	6,004
Variable-interest financial instruments (assets)	**395,872**	**320,619**
Total interest-bearing assets	**886,351**	**921,935**
Current and non-current debentures	–1,088,448	–1,050,134
Current and non-current lease liabilities	–3,010	–4,762
Current and non-current other financial instruments	–10,520	–14,718
Fixed interest financial instruments (liabilities)	**–1,101,978**	**–1,069,614**
Total interest-bearing liabilities	**–1,101,978**	**–1,069,614**

The table below shows the sensitivity analysis for variable and fixed-rate financial instruments with a deviation of 50 basis points:

	Increase by 50 bp		Decrease by 50 bp	
(CHF 1,000)	Equity	Profit	Equity	Profit
Variable-interest financial instruments	0	1,574	0	–1,574
Fixed-interest financial instruments	–5,828	0	5,828	0
31 December 2018	**–5,828**	**1,574**	**5,828**	**–1,574**
Variable-interest financial instruments	0	1,251	0	–1,251
Fixed-interest financial instruments	–5,203	0	5,203	0
31 December 2017	**–5,203**	**1,251**	**5,203**	**–1,251**

B) FAIR VALUES

Due to their short-term nature, the carrying amounts of cash and cash equivalents, fixed-term deposits, trade receivables, other current receivables and current liabilities are a reasonable approximation of their fair values.

Financial assets in the Airport of Zurich Noise Fund: The fair value of the bonds corresponds to the market price of the securities at the reporting date (level 1). The fair value of the mixed investment fund is the unadjusted net asset value, as the units may be redeemed at that value as at the reporting date (level 2).

Financial liabilities: The fair value of the debentures corresponds to the market price (level 1).

Derivative financial instruments: The fair value of the cross-currency swap is determined using a fair value model (level 2). The key inputs are foreign exchange rates and interest rates observable in the market. Unobservable inputs are not significant to the measurement.

(CHF 1,000)		31.12.2018		31.12.2017
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets of Airport of Zurich Noise Fund (bonds)	303,812	307,599	335,654	335,654
Total financial assets	**303,812**	**307,599**	**335,654**	**335,654**
Debentures	–1,088,448	–1,121,597	–1,050,134	–1,095,379
Total financial liabilities	**–1,088,448**	**–1,121,597**	**–1,050,134**	**–1,095,379**

C) CATEGORIES OF FINANCIAL INSTRUMENTS

The following tables show the carrying amounts of all financial instruments by category:

(CHF 1,000)	31.12.2018
Cash (excl. cash on hand) and cash equivalents, collateral and short-term monetary investments	395,659
Current and non-current fixed-term deposits	186,667
Trade receivables, net	102,024
Other receivables and prepaid expenses	15,066
Other financial assets	6,713
Total loans and receivables	**706,129**
Current and non-current financial assets of Airport of Zurich Noise Fund (bonds)	303,812
Total financial assets carried at amortised cost	**303,812**
Current and non-current financial assets of Airport of Zurich Noise Fund (mixed investment fund)	95,396
Total financial assets measured at fair value	**95,396**
Financial liabilities	–1,128,127
Trade payables, net	–53,625
Other current liabilities, accruals and deferrals (excluding derivatives and non-financial instruments)	–90,105
Total financial liabilities carried at amortised cost	**–1,271,857**
Other current liabilities, accruals and deferrals (cross currency swap)	–5,624
Total financial liabilities measured at fair value	**–5,624**

(CHF 1,000)	31.12.2017
Cash (excl. cash on hand) and cash equivalents, collateral and short-term monetary investments	314,388
Current and non-current fixed-term deposits	271,667
Trade receivables, net	109,902
Other receivables and prepaid expenses	11,685
Other financial assets	11
Total loans and receivables	**707,653**
Current and non-current financial assets of Airport of Zurich Noise Fund	437,103
Other financial assets	7,920
Total available-for-sale financial assets measured at fair value	**445,023**
Financial liabilities	–1,081,279
Trade payables, net	–39,846
Other current liabilities, accruals and deferrals (excluding derivatives and non-financial instruments)	–83,041
Total financial liabilities carried at amortised cost	**–1,204,166**
Other current liabilities, accruals and deferrals (cross currency swap)	–6,088
Total financial liabilities measured at fair value	**–6,088**

D) FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Financial instruments recognised or disclosed at fair value are categorised according to the following hierarchy, reflecting the significance of the inputs used to measure fair value:

Level 1 – Quoted market prices

The inputs used to measure the assets or liabilities are quoted, unadjusted market prices determined in active markets for identical assets or liabilities at the measurement date.

Level 2 – Measurement based on observable inputs

The assets or liabilities are measured on the basis of inputs (other than the quoted prices included within level 1) that are directly or indirectly observable for the asset or liability.

Level 3 – Measurement based on unobservable inputs

The inputs for these assets or liabilities are not observable.

(CHF 1,000)	31.12.2018			01.01.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Available-for-sale financial assets of the Airport of Zurich Noise Fund at fair value 1)							335,653	101,450	
Mixed investment fund of the Airport of Zurich Noise Fund at fair value 2)		95,396			101,450				
Cross currency swap		–5,624			–6,088			–6,088	

1) The change in comparison between 31 December 2017 and 1 January 2018 is attributable to the introduction of IFRS 9. For further information, see also Notes to the consolidated statements, I. Accounting policies, IFRS 9 Financial Instruments.
2) The AZNF's mixed investment fund continues to be measured at fair value. Since 1 January 2018, changes in fair value have been recognised in profit or loss (previously through OCI). See also Consolidated statement of changes in equity, Effect of the initial application of IFRS 9.

E) CAPITAL MANAGEMENT

With respect to capital management, Flughafen Zürich AG pays particular attention to ensuring the continuation of the group's activities, achieving an acceptable dividend for shareholders and optimising the balance sheet structure, particularly in periods of major investment activity, taking account of the cost of capital. In order to achieve these objectives, Flughafen Zürich AG can adjust the amount of the dividend payment or repay capital to shareholders.

Flughafen Zürich AG constantly monitors the following key financial data: equity ratio, debt ratio and interest coverage. Here it is especially important to ensure that the ratio of debt to equity is in line with the budgetable cash flows and investments, and tends towards the conservative side. In this way a high degree of entrepreneurial flexibility can be assured at all times, including when unforeseeable events occur.

The necessary quantity of treasury shares may be held for the purpose of employee and bonus programmes. It is not permitted to accumulate several years' worth of treasury shares for the purpose of bonus programmes, however. Neither is it permitted to hold treasury shares to use as payment for acquisitions (exchange of shares in the event of a takeover) or for the purpose of speculating on higher selling prices. Accumulated treasury shares may in no case exceed 10% of all shares issued.

24.2 TENANCY AGREEMENTS

The tenancy agreements entered into by Flughafen Zürich AG in its capacity as landlord may be either fixed tenancy or turnover-based agreements:

A) FIXED TENANCY AGREEMENTS

Fixed tenancy agreements comprise in particular agreements for office, warehouse, archive and workshop premises. They are divided into limited-term and indefinite agreements, whereby the latter are usually subject to either six or twelve months' notice to be communicated in advance.

B) TURNOVER-BASED AGREEMENTS

Sales-based tenancy agreements primarily relate to commercial premises. These agreements between the partners generally comprise guaranteed basic rents plus turnover-based portions with a fixed term of five years and no other options. Moreover, some agreements involving basic rents and turnover-based portions exist as a function of passenger trends or prior-year sales.

Commercial revenue (retail, tax & duty free plus food & beverage) and revenue from facility management (rental and leasing agreements) in the reporting period contained conditional rental payments amounting to CHF 24.0 million (see also note 2, Revenue).

At the reporting date, minimum lease payments (fixed rents and guaranteed basic rents) under non-cancellable leases were as follows:

(CHF 1,000)	31.12.2018	31.12.2017
Due date up to 1 year	202,615	184,304
Due date from 1 to 5 years	675,995	558,469
Dute date in more than 5 years	403,071	488,045
Total	**1,281,681**	**1,230,818**

24.3 CAPITAL COMMITMENTS

As at the reporting date, capital commitments for various buildings and engineering structures amounted to around CHF 280 million in total. The most significant capital commitments involved the refurbishment and expansion of the baggage sorting system (approx. CHF 145 million), the refurbishment of the airfield power supply (CHF 23 million), the refurbishment of the maintenance workshop (CHF 15 million) and refurbishment of car parking facilities (CHF 15 million), In addition, the company's share of capital commitments for THE CIRCLE amount to approximately CHF 200 million.

24.4 CONTINGENT LIABILITIES

A number of legal proceedings and claims against Flughafen Zürich AG in the context of its normal business activities are still pending. The company does not expect the amounts required to settle these lawsuits and claims to have a significantly negative impact on the consolidated financial statements and cash flow of Flughafen Zürich AG.

Depending on future and final-instance legal judgements, especially with respect to the southern approaches, in particular the new noise-related liabilities, but also the old ones, may in future be subject to substantial adjustments, which would also require adjustments to the noise-related costs recognised as assets and liabilities in the balance sheet. At the present time, it is not possible to reliably estimate the total costs to capitalise as an intangible asset from the right of formal expropriation, the resulting amortisation or the corresponding provision.

As part of its involvement in the expansion and operation of Confins International Airport in Belo Horizonte, Flughafen Zürich AG provides a guarantee as security for local debt financing, which is made available by the Brazilian development bank Banco Nacional de Desenvolvimento Econômico e Social (BNDES). As at the reporting date, the amount arising from this guarantee was CHF 26.5 million (2017: CHF 15.9 million). Moreover, the company has entered into a counterbond for a performance bond which the operator, Concessionária do Aeroporto Internacional de Confins S.A., had to submit to Brazil's National Civil Aviation Authority (ANAC). As at the reporting date, the amount arising from the counterbond was CHF 10.6 million (2017: CHF 12.0 million).

In connection with the concession for the airport in Florianópolis, the operator, Concessionária do Aeroporto Internacional de Florianópolis S.A., has entered into a performance bond for Brazil's National Civil Aviation Authority (ANAC). As at the reporting date, the amount arising from the counterbond was CHF 28.8 million (2017: CHF 33.5 million).

In addition, in June 2018, Concessionária do Aeroporto Internacional de Florianópolis S.A. arranged a one-year bond with Brazilian company Simplific Pavarini Distribuidora de Títulos e Valores Mobiliários. Comprising two tranches of BRL 150 million each, the bond will be used to finance the mandatory infrastructure measures specified in the concession arrangement, including the construction of a new terminal building, the expansion of the parking areas and the extension of the runway at Florianópolis airport. Flughafen Zürich AG provides a guarantee to Simplific Pavarini Distribuidora de Títulos e Valores Mobiliários as security for the local debt financing. As at the reporting date, an initial tranche of the bond had been drawn down in the amount of BRL 150 million (CHF 38.0 million).

As part of the concession arrangements for the airports in Antofagasta and Iquique, the operators have entered into counterbonds for performance bonds issued to the Chilean Ministry of Public Works (Ministerio de Obras Públicas). As at the reporting date, the amount arising from the counterbond was CHF 7.0 million (2017: CHF 6.9 million).

Flughafen Zürich AG is jointly and severally liable to third parties for the liabilities of the co-ownership structure THE CIRCLE and the ordinary partnership THE CIRCLE.

24.5 RELATED PARTIES

Related parties are:

- Canton of Zurich
- Members of the Board of Directors
- Members of the Management Board
- Associates
- BVK Employee Pension Fund of the Canton of Zurich

A) TRANSACTIONS WITH RELATED PARTIES

In the reporting period, the Canton of Zurich police force was paid CHF 98.0 million (2017: CHF 98.4 million). In this context, accrued liabilities and deferred income amounting to CHF 5.8 million at the reporting date (2017: CHF 6.3 million) were included in “Other current liabilities, accruals and deferrals”.

In financial year 2018, consulting revenue from operations and management agreements amounted to CHF 2.7 million (2017: 3.3 million) for the airport in Belo Horizonte and to CHF 3.3 million (2017: CHF 3.3 million) for the Chilean airports.

In the reporting period, Flughafen Zürich AG paid employer contributions amounting to CHF 17.2 million (2017: CHF 18.1 million) to the BVK Employee Pension Fund of the Canton of Zurich for employee benefits (see note 22, Employee Benefits). As at the reporting date, CHF 2.4 million of this (2017: CHF 2.4 million) was still included in “Other current liabilities, accruals and deferrals” (see note 23).

B) SHARES HELD BY RELATED PARTIES

As at the reporting date, members of the Board of Directors and related parties held the following number of shares:

Name	Function	Number of shares as at 31.12.2018	Number of shares as at 31.12.2017
Andreas Schmid	Chairman	15	20
Vincent Albers	Member	2,217	117
Guglielmo L. Brentel	Member	309	309
Josef Felder	Member; Chairman Audit & Finance Committee	25,000	25,000
Stephan Gemkow	Member	100	100
Corine Mauch	Member	0	0
Eveline Saupper	Vice Chairwoman; Chairwoman Nomination & Compensation Committee	675	675
Carmen Walker Späh	Member; Chairwoman Public Affairs Committee	5	5
Total		**28,321**	**26,226**

As at the reporting date, members of the Management Board and related parties held the following number of shares:

Name	Number of shares as at 31.12.2018	Number of shares as at 31.12.2017
Stephan Widrig	4,650	3,858
Lukas Brosi	698	464
Stefan Gross	515	218
Daniel Scheifele	532	235
Stefan Tschudin	130	5
Total	**6,525**	**4,780**

Neither members of the Board of Directors nor the Management Board held options on the company's shares at the reporting date.

C) REMUNERATION FOR KEY MANAGEMENT PERSONNEL

Remuneration for the members of the Board of Directors and Management Board comprises the following:

(CHF 1,000)	2018	2017
Short-term employee benefits	3,797	3,774
Post-employment benefits	553	569
Share-based payments	390	401
Total	**4,740**	**4,744**

24.6 COMPOSITION OF THE GROUP

As at the reporting date, the group comprised the following companies:

Company	Domicile	Share capital	Stake held in %
Flughafen Zürich AG	Kloten	CHF 307,018,750	Parent company
Zurich Airport International AG	Kloten	CHF 100,000	100.0
Zurich Airport International Asia Sdn. Bhd.	Kuala Lumpur	MYR 1.0 million	100.0
Zurich Airport Latin America Ltda.	Rio de Janeiro	BRL 1.8 million	100.0
Concessionária do Aeroporto Internacional de Florianópolis S.A.	Florianópolis	BRL 304 million	100.0
A-port S.A.	Santiago de Chile	CLP 16,139 million	100.0
A-port Chile S.A.	Santiago de Chile	CLP 10,613 million	100.0
Sociedad Concesionaria Antofagasta S.A.	Santiago de Chile	CLP 3,600 million	100.0
Sociedad Concesionaria Iquique S.A.	Santiago de Chile	CLP 600 million	100.0
Sociedad Concesionaria Aeropuerto Diego Aracena S.A.	Santiago de Chile	CLP 10,700 million	100.0
A-port Operaciones S.A.	Santiago de Chile	CLP 1,352 million	99.0
A-port Operaciones Colombia S.A.	Bogotá	COP 100 million	99.0
Unique IDC S.A. de C.V.	Tegucigalpa	HNL 200 million	99.0

In addition, the following associates are included by applying the equity method:

Company	Domicile	Share capital	Stake held in %
Sociedade de Participação do Aeroporto de Confins S.A.	Belo Horizonte	BRL 474 million	25.0
Concessionária do Aeroporto Internacional de Confins S.A.	Belo Horizonte	BRL 907 million	12.8
Administradora Unique IDC C.A.	Porlamar	VEB 25 million	49.5
Aeropuertos Asociados de Venezuela C.A.	Porlamar	VEB 10 million	49.5

24.7 NOTES ON THE LICENCE TO OPERATE ZURICH AIRPORT

The Swiss Federal Department of the Environment, Transport, Energy and Communications (DETEC) awarded Flughafen Zürich AG the licence to operate Zurich Airport for 50 years from 1 June 2001 to 31 May 2051.

The licence encompasses the operation of an airport in accordance with the provisions of the ICAO (International Civil Aviation Organisation) governing domestic, international and intercontinental civil aviation services. Flughafen Zürich AG is authorised and obliged to operate Zurich Airport for the entire period cited in the operating licence, and to provide the necessary infrastructure for this purpose. To accomplish this, it is entitled to collect charges from all users of the airport. Furthermore, Flughafen Zürich AG is authorised to assign specific rights and obligations arising from the operating licence to third parties. Insofar as they concern activities relating to airport operations such as aircraft handling, passenger handling, baggage sorting and handling, mail and freight handling, these rights and obligations shall be subject to the provisions of public law. Flughafen Zürich AG regulates rights and obligations it has assigned to third parties in the form of binding entitlements (concessions).

The concessionaire is obliged to grant access to the airport to all aircraft that are licensed to provide domestic and international flights. The volume of flight traffic and handling of licensed aircraft are governed by the regulations laid down in the Sectoral Aviation Infrastructure Plan (SAIP) and the provisions of the operating regulations. The concessionaire is obliged to implement all measures relating to regulations governing the use of German airspace for landings at, and take-offs from, Zurich Airport without delay, and to submit the necessary applications for approval by the authorities in good time. The concessionaire is empowered and obliged to enforce sound insulation measures and to implement them where they are not contested. The provision whereby the concessionaire shall meet all obligations to which it is bound through clauses of the civil aviation treaty between Germany and Switzerland without entitlement to compensation was declared null and void in response to an objection lodged by Flughafen Zürich AG.

As part of the bilateral agreements that came into effect on 1 June 2002, the EU ground handling directive (Council Directive 96/67/EC of 15 October 1996 on access to the groundhandling market at Community airports) also became applicable to Switzerland. The principles governing the granting of rights to carry out ground handling activities are defined in the operating regulations for Flughafen Zürich AG dated 30 June 2011. The licences for ground handling operations in areas in which the number of admissible service providers may be limited were re-awarded on the basis of tender procedures on 1 December 2018 for the period to the end of November 2025.

24.8 SERVICE CONCESSIONS FOR THE OPERATION OF FOREIGN AIRPORTS

As at the reporting date, Flughafen Zürich AG was responsible, via its subsidiaries, for the operation and expansion of three foreign airports:

BRAZIL

In 2017, in a public tender conducted by the Brazilian government as part of an airport privatisation programme, Flughafen Zürich AG was awarded the concession for the operation and expansion of Hercílio Luz International Airport (IATA: FLN) in Florianópolis in the south of Brazil. The airport has a catchment area of 1.1 million people and is located in Santa Catarina, a popular holiday destination for both local and international travellers. In 2018, traffic volumes reached 3.8 million passengers. Concession fees totalling BRL 241.5 million are payable as consideration for the right to operate the airport. A portion of the concession charge was paid on the day that the concession arrangement was signed (BRL 83.3 million or CHF 24.7 million). Further minimum concession payments totalling BRL 158.2 million (CHF 40.1 million) are due over the 30-year term of the concession. Following the signing of the concession arrangement in July 2017, the wholly-owned subsidiary Concessionária do Aeroporto Internacional de Florianópolis S.A., as sole holder of the concession, took over flight operations from the state-owned operator Infraero on 3 January 2018. Flughafen Zürich AG is currently expecting investments in airport infrastructure of approximately BRL 550 million (approximately CHF 140 million) during the first five years.

CHILE

Since 2011, Sociedad Concesionaria Aeropuerto de Antofagasta S.A., a wholly-owned subsidiary of A-port Chile S.A., has held the concession for the expansion and operation of Andrés Sabella International Airport (IATA: ANF) in Antofagasta in the north of Chile. The airport is located approximately 25 kilometres north of the city of Antofagasta. The concession has a term that is dependent upon traffic volumes and ends 36 months after the date on which 75% of the maximum aeronautical revenues are generated, but at the latest after 15 years. It is currently expected to end in 2025. No notable infrastructure investments are anticipated in the period through to the end of the concession.

Until the end of March 2018, Sociedad Concesionaria Aeropuerto de Iquique S.A., a wholly-owned subsidiary of A-port Chile S.A., held the concession for the operation and expansion of Diego Aracena International Airport (IATA: IQQ) in Iquique in the north of Chile. The airport is located 41 kilometres south west of the city of Iquique in the Tarapacá region. With 1.4 million passengers a year, it is the country’s fifth-largest airport.

In 2017, Sociedad Concesionaria Aeropuerto Diego Aracena S.A., a wholly-owned subsidiary of A-port Chile S.A., acquired the new concession for the operation and expansion of Diego Aracena International Airport in Iquique. The new concession commenced on 1 April 2018 and has a variable term that is dependent upon traffic volumes and ranges from an anticipated 18 years up to a specified maximum of 25 years. As part of the concession arrangement, the company has undertaken to invest in measures to upgrade and extend the airport infrastructure, in particular to extend the existing terminal. The company is currently expecting investments in airport infrastructure of approximately USD 60 million (around CHF 60 million) during the first four years.

24.9 EVENTS AFTER THE REPORTING DATE

The Board of Directors authorised the 2018 consolidated financial statements for issue on 7 March 2019. These also have to be approved by the General Meeting of Shareholders.

No events occurred between 31 December 2018 and the date on which these consolidated financial statements were authorised for issue by the Board of Directors which would require an adjustment to the carrying amounts of the group’s assets and liabilities or which would have to be disclosed here.

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To the General Meeting of
Flughafen Zürich AG, Kloten

Zurich, 7 March 2019

Statutory auditor's 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 statement of financial position as at 31 December 2018 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 (pages 64 to 128) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, 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

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Provision for formal expropriations

Area of focus	As of 31 December 2018, Flughafen Zürich AG recognized a provision for formal expropriations amounting to CHF 275.2 million. 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 for formal expropriations. Measuring this provision involves significant management assumptions and estimates. These assumptions and estimates involve judgment and are based on information available at the reporting date and affect the amounts recognized for the provision significantly. There is a risk that actual results which are largely beyond the Company's influence may differ from these estimates and assumptions and may result in material adjustments to the amounts recognized for the provision. Possible effects on the nature and scope of the business activities and thus on the balance sheet, the income statement and the statement of cash flows of Flughafen Zürich AG cannot be conclusively determined at present. Further information regarding the provision for formal expropriations are included in the notes to the consolidated financial statements under note 19.
Our audit response	We mainly performed the following audit procedures: • Sample-based review whether controls were documented before cash distribution as well as the analysis of the effects of these payments on the estimate of total costs • Analysis of semi-annual noise reports submitted to the Group's management and the Board of Directors as well as evaluation of consequential questions • Inspection whether current total cost estimates are adjusted upon decisions by the court of final appeal On the basis of our audit procedures, we have no objections regarding recognition and measurement of the provision for formal expropriations.

Property, plant and equipment

Area of focus	Property, plant and equipment used for operations (assets in use) and assets under construction for operating activities together comprise 60% of total assets. In 2018, investments in property, plant and equipment amounted to CHF 194.7 million. Therefore, based on the absolute size, this item is significant for the balance sheet of Flughafen Zürich AG. The large number of different, partly very long-lived assets, the high transaction volume and the different expected useful lives as well as transfers between asset categories contain inherent risks regarding existence and valuation. Furthermore, there is a risk that existing, long-lived assets will be replaced by new assets without eliminating the residual value of the out-of-use assets. Additionally, there are risks regarding valuation, delayed recognition of depreciation charges as well as in determining the adequate useful life. Further information regarding property, plant and equipment is included in the notes to the consolidated financial statements under note 9.
Our audit 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 adequacy of useful lives assigned to single assets and alignment towards useful lives according to the internal manual • Evaluation of the assessment on existence of impairment triggers and discussion of resulting questions with the Controlling and Accounting department On the basis of our audit procedures, we have no objections regarding the existence and valuation of property, plant and equipment.

Other matter

The consolidated financial statements of Flughafen Zürich AG for the year ended 31 December 2018 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 26 February 2018.

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, 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

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.

Ernst & Young Ltd

Daniel Zaugg	Daniel Lanfranconi
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS ACCORDING TO THE SWISS CODE OF OBLIGATIONS (CO)

INCOME STATEMENT

(CHF 1,000)	Notes	2018	2017
Aviation revenue		656,667	624,241
Non-aviation revenue		417,117	400,545
Total revenue		**1,073,784**	**1,024,786**
Personnel expenses		–194,584	–190,326
Police and security		–119,033	–119,614
Energy and waste		–20,428	–18,793
Maintenance and material		–36,412	–36,846
Other operating expenses		–51,022	–50,675
Sales, marketing, administration		–34,370	–31,723
Expenses for formal expropriations plus sound insulation and resident protection		–8,213	–7,620
Deposits into renovation fund		–5,500	–5,500
Other income and expenses		14,593	15,074
Ordinary profit before depreciation and amortisation, interest and tax		**618,815**	**578,763**
Depreciation and amortisation		–224,812	–227,581
Ordinary profit before interest and tax		**394,003**	**351,182**
Finance income		5,372	5,372
Finance expenses		–16,745	–19,976
Extraordinary result	(1)	–3,913	44,906
Profit before tax		**378,717**	**381,484**
Direct tax		–79,988	–71,489
Profit for the year		**298,729**	**309,995**

BALANCE SHEET

(CHF 1,000)	Notes	31.12.2018	31.12.2017
Assets			
Cash and cash equivalents		317,706	305,929
Current fixed-term deposits		149,167	195,000
Current financial assets of Airport of Zurich Noise Fund		21,967	76,578
Trade receivables	(2)	96,262	108,128
Other current receivables		4,418	4,015
Inventories		10,346	10,190
Prepaid expenses	(3)	46,856	13,261
Current assets		**646,722**	**713,101**
Non-current fixed-term deposits		37,500	41,667
Non-current financial assets of Airport of Zurich Noise Fund		377,972	360,525
Investments	(4)	6,012	6,012
Non-current loans to associates		158,118	108,010
Equity interest in co-ownership structure for THE CIRCLE	(5)	326,531	220,110
Property, plant and equipment	(6)	2,557,555	2,584,193
Intangible asset from right of formal expropriation		19,917	15,071
Other intangible assets		14,186	13,573
Non-current assets		**3,497,791**	**3,349,161**
Total assets		**4,144,513**	**4,062,262**
Liabilities and equity			
Trade payables		37,597	39,718
Other current liabilities	(7)	43,376	47,840
Current provision for aircraft noise	(9)	31,256	50,120
Other current provisions		4,137	4,078
Accruals and deferrals		78,440	77,593
Current liabilities		**194,806**	**219,349**
Non-current interest-bearing financial liabilities	(8)	1,050,000	1,050,000
Non-current provision for aircraft noise	(9)	437,172	435,139
Renovation fund		173,602	168,102
Non-current liabilities		**1,660,774**	**1,653,241**
Total liabilities		**1,855,580**	**1,872,590**
Share capital	(10)	307,019	307,019
Legal capital reserves: capital contribution reserves	(10)	215,256	313,499
Legal retained earnings: general legal retained earnings		42,370	42,370
Voluntary retained earnings		109,810	109,838
Available earnings			
Profit brought forward		1,316,090	1,107,409
Profit for the year		298,729	309,995
Treasury shares	(11)	–341	–458
Equity		**2,288,933**	**2,189,672**
Total liabilities and equity		**4,144,513**	**4,062,262**

NOTES TO THE FINANCIAL STATEMENTS

I ACCOUNTING PRINCIPLES

GENERAL REMARKS

The 2018 financial statements of Flughafen Zürich AG, based in Kloten, have been prepared in accordance with the accounting provisions of the Swiss Code of Obligations.

The significant valuation principles that have been applied but are not prescribed by law are described below. These single-entity financial statements also serve for tax purposes and form the basis for the statutory business of the General Meeting of Shareholders.

As Flughafen Zürich AG prepares consolidated financial statements in accordance with accepted financial reporting standards (IFRSs), it has omitted to present disclosures on interest-bearing liabilities, disclosures on auditors' fees, a cash flow statement and a management report in these financial statements in accordance with the statutory provisions.

As in the previous year, the average number of full-time equivalents was over 250 in the reporting period.

REPORTING OF NOISE-RELATED COSTS IN THE FINANCIAL STATEMENTS

Costs for formal expropriations qualify as an intangible asset under the accounting provisions of the Swiss Code of Obligations. They are recognised as assets at the latest on the date on which the counterparty has attained an assertable claim. Amortisation of capitalised costs for formal expropriations is based at a minimum on the consolidated financial statements. Adequate provisions are recognised for current liabilities arising from sound insulation and resident protection measures. Any balance of revenue from noise charges after deduction of noise-related costs (compensation for formal expropriations, sound insulation and resident protection measures, operating costs, financing costs and amortisation) is transferred to the provision for aircraft noise (see note 9, Provision for aircraft noise).

The reporting of noise-related costs in the financial statements is a complex matter requiring significant assumptions and estimates concerning the obligation to recognise provisions. This complexity is attributable to a large variety of relevant legal bases, unclear or pending legal practice and political debate. Flughafen Zürich AG has received a total of around 20,000 noise-related claims for compensation, of which around 6,700 were still pending at the end of 2018. Almost 1,000 of these cases are currently being examined by the Swiss Federal Assessments Commission.

The rulings by the Swiss Federal Supreme Court in the first half of 2008 on fundamental issues related to formal expropriations enabled Flughafen Zürich AG to reliably estimate the total cost of compensation for formal expropriations for the first time, in spite of the remaining uncertainties regarding the accuracy of this estimate. With further rulings on

8 June 2010 and 9 December 2011, the Swiss Federal Supreme Court definitively set the cut-off date for the foreseeability of an eastern approach as 1 January 1961 and ruled definitively on the method used to calculate a decline in the market value of investment property. In the first half of 2016, the Swiss Federal Supreme Court handed down two rulings in test cases regarding claims for compensation relating to the eastern and southern approach routes. Based on these Swiss Federal Supreme Court rulings and other fundamental issues that have since been decided in a court of final instance, the company undertook a reappraisal of costs for formal expropriations.

In the first half of 2018, the Swiss Federal Supreme Court handed down two rulings in test cases regarding cooperative ownership. By answering important questions relating to how pending claims for compensation will be dealt with in a court of final instance, these rulings increased legal certainty significantly. These Swiss Federal Supreme Court rulings enabled Flughafen Zürich AG to undertake a reappraisal of the outstanding cost of compensation for formal expropriations at 30 June 2018.

With respect to sound insulation and resident protection measures, Flughafen Zürich AG is required to implement sound insulation measures in the area where it claims exemptions from noise limits (emission limit). In this context, the Federal Office of Civil Aviation (FOCA) has initiated a night-time noise abatement procedure. The area with exemptions under the Sectoral Aviation Infrastructure Plan adopted by the Federal Council on 23 August 2017 is to be extended. With effect from 30 June 2018, the Board of Directors approved a further CHF 60 million of measures in this context in addition to the costs of CHF 340 million previously estimated.

As at 31 December 2018, Flughafen Zürich AG has recognised an intangible asset from the right of formal expropriation of CHF 19.9 million (2017: CHF 15.1 million) and a provision for aircraft noise of CHF 468.4 million in total (2017: CHF 485.3 million) in the financial statements according to the provisions of the Swiss Code of Obligations.

Depending on future and final-instance legal judgements, especially with respect to the southern approaches, noise-related liabilities may in future be subject to substantial adjustments, which would also require adjustments to the noise-related costs recognised in the balance sheet. At the present time, it is not possible to reliably estimate the total costs to capitalise as an intangible asset from the right of formal expropriation, the resulting amortisation or the corresponding provision.

As based on current knowledge, the Airport of Zurich Noise Fund has sufficient assets to be able to finance the costs for formal expropriations as well as noise insulation and resident protection measures that can be estimated under the base case at the present time, the passenger-related noise supplement was suspended as of 1 February 2014.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

Revenue is recognised by Flughafen Zürich AG when the service has been rendered, it is probable that the economic benefits will flow to the company and it can be measured reliably. In addition, the significant risks and rewards of ownership have to be transferred to the recipient of the service. Revenue from fixed-rent tenancy agreements is recognised on a straight-line basis over the term of the agreement. Conditional rental payments (including turnover-based tenancy agreements) are recognised on an accrual basis based on the turnover generated by the lessee, in which case a minimum rent may be applied.

LEASES

Lease and rental transactions are accounted for according to legal ownership. Accordingly, in the financial statements of the lessee or tenant, the expenses are recognised on an accrual basis; the leased or rented items themselves are not recognised, however.

INVENTORIES

Inventories mainly comprise operating supplies and consumables necessary for the maintenance and repair of property, plant and equipment and are stated at cost or, if lower, at net realisable value. The first-in, first-out method is applied when calculating the cost.

FINANCIAL ASSETS OF AIRPORT OF ZURICH NOISE FUND

The financial assets of the Airport of Zurich Noise Fund comprise quoted securities held for the short or long term. They are initially recognised at cost (fair value plus directly attributable transaction costs). The securities are subsequently measured at amortised cost (bonds) or at fair value (other financial assets), with gains and losses recognised in profit or loss. A fluctuation reserve is not recognised.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at acquisition or production cost less accumulated depreciation and impairment. With the exception of land which is not depreciated, items are depreciated over their estimated useful life using the straight-line method. If there are indications that they are impaired, the carrying amounts are reviewed and, if necessary, adjusted.

INTANGIBLE ASSETS

Intangible assets are stated at cost less amortisation. They are amortised over their estimated useful life using the straight-line method. If there are indications that they are impaired, the carrying amounts are reviewed and, if necessary, adjusted.

TREASURY SHARES

At the date of acquisition, treasury shares are recognised at cost as a deduction from equity. In the event of their sale at a later date, the gain or loss is credited or charged directly to voluntary retained earnings.

II NOTES TO THE FINANCIAL STATEMENTS

1 EXTRAORDINARY RESULT

(CHF 1,000)	2018	2017
Extraordinary income	991	47,987
Extraordinary expenses	–4,904	–3,081
Extraordinary result	**–3,913**	**44,906**

In addition to a payment of CHF 4.8 million in connection with the liquidation of Swissair in debt restructuring proceedings, the prior-year extraordinary income included the gain of CHF 42.9 million on the disposal of the 5% interest in Bangalore International Airport Ltd.

In both the reporting period and the previous year, extraordinary expenses included losses on asset disposals. Also included is a share in the cost for the new shooting range of the Canton of Zurich police force amounting to CHF 3.0 million.

2 TRADE RECEIVABLES

(CHF 1,000)	31.12.2018	31.12.2017
Trade receivables from third parties	96,837	107,995
Impairment allowance	–575	–762
Trade receivables from investments	0	895
Total trade receivables	**96,262**	**108,128**

Trade receivables from investments comprise amounts still due from Zurich Airport International AG for services rendered.

3 PREPAID EXPENSES

(CHF 1,000)	31.12.2018	31.12.2017
Prepaid expenses in respect of third parties	46,759	13,261
Prepaid expenses in respect of investments	97	0
Total prepaid expenses	**46,856**	**13,261**

Prepayments and accrued income relating to investments comprise accruals for receivables not yet billed to Zurich Airport International AG for services rendered.

4 INVESTMENTS

Company	Domicile	Share capital	Stake held in %
Zurich Airport International AG 1)	Kloten	CHF 100,000	100.0
Zurich Airport International Asia Sdn. Bhd. 2)	Kuala Lumpur	MYR 1.0 million	100.0
Zurich Airport Latin America Ltda. 2)	Rio de Janeiro	BRL 1.8 million	100.0
Concessionária do Aeroporto Internacional de Florianópolis S.A. 2)	Florianópolis	BRL 304 million	100.0
A-port S.A. 2)	Santiago de Chile	CLP 16,139 million	100.0
A-port Chile S.A. 2)	Santiago de Chile	CLP 10,613 million	100.0
Sociedad Concesionaria Antofagasta S.A. 2)	Santiago de Chile	CLP 3,600 million	100.0
Sociedad Concesionaria Iquique S.A. 2)	Santiago de Chile	CLP 600 million	100.0
Sociedad Concesionaria Aeropuerto Diego Aracena S.A. 2)	Santiago de Chile	CLP 10,700 million	100.0
A-port Operaciones S.A. 2)	Santiago de Chile	CLP 1,352 million	99.0
A-port Operaciones Colombia S.A. 2)	Bogotá	COP 100 million	99.0
Unique IDC S.A. de C.V. 2)	Tegucigalpa	HNL 200 million	99.0
Sociedade de Participação no Aeroporto de Confins S.A. 2)	Belo Horizonte	BRL 474 million	25.0
Concessionária do Aeroporto Internacional de Confins S.A. 2)	Belo Horizonte	BRL 907 million	12.8
Administradora Unique IDC C.A. 1)	Porlamar	VEB 25 million	49.5
Aeropuertos Asociados de Venezuela C.A. 2)	Porlamar	VEB 10 million	49.5

1) Direct investment.
2) Indirect investment.

The equity interests stated are also the share of the voting power in the investees listed.

Zurich Airport International AG, the wholly-owned subsidiary responsible for advising, operating and/or owning airports and airport-related companies throughout the world, holds all the investees existing in this context (with the exception of those in Venezuela).

In 2010, Flughafen Zürich AG and its consortium partner Unique IDC turned to the International Centre for Settlement of Investment Disputes (ICSID) in Washington D.C. in the matter of the airport expropriated in Venezuela (Isla de Margarita). This step is in compliance with the investment protection treaty between Venezuela, Switzerland and Chile. The ICSID reached its decision in November 2014, requiring the Bolivarian Republic of Venezuela to reimburse the consortium the costs incurred for the proceedings and project plus a compensation payment of around USD 19.5 million as well as interest incurred up until receipt of payment (around USD 22.2 million accrued as at 31 December 2018). Flughafen Zürich AG is entitled to 50% of the total amount of the payments. Prior to the deadline set for 18 March 2015, Venezuela appealed to the ICSID to set aside the tribunal's decision on the grounds of an infringement of procedural rules. A decision is expected in the next few months. Regardless of the outcome the tribunal's decision is already binding and enforceable. The value of this holding has been fully impaired.

5 EQUITY INTEREST IN THE CO-OWNERSHIP STRUCTURE FOR THE CIRCLE

(CHF 1,000)	31.12.2018	31.12.2017
Share of assets of co-ownership structure for THE CIRCLE	350,197	241,619
Share of liabilities of co-ownership structure for THE CIRCLE	–23,666	–21,509
Total equity interest in co-ownership structure for THE CIRCLE	**326,531**	**220,110**

On 5 February 2015, Flughafen Zürich AG and Swiss Life AG notarised the purchase agreement for the share of land for THE CIRCLE and registered it for entry in the Land Register, thereby establishing the co-ownership structure between the two parties provided for in the financing agreements, in which Flughafen Zürich AG has a 51% interest and Swiss Life AG a 49% interest.

The co-ownership structure is responsible for the implementation and subsequent operation of THE CIRCLE.

6 PROPERTY, PLANT AND EQUIPMENT

(CHF 1,000)	31.12.2018	31.12.2017
Land	119,697	119,697
Buildings, engineering structures	2,170,743	2,260,389
Projects in progress	187,076	124,196
Movables	80,039	79,911
Total property, plant and equipment	**2,557,555**	**2,584,193**

7 OTHER CURRENT LIABILITIES

(CHF 1,000)	31.12.2018	31.12.2017
Other current liabilities to third parties	40,934	45,486
Other current liabilities to employee pension funds	2,442	2,354
Total other current liabilities	**43,376**	**47,840**

At the reporting date, other current liabilities to employee pension funds comprise outstanding liabilities to the BVK Employee Pension Fund of the Canton of Zurich.

8 NON-CURRENT INTEREST-BEARING FINANCIAL LIABILITIES

	as at 31.12.2018				
Financial liabilities	Nominal value	Duration	Interest rate	Early amortisation	Interest payment date
	(CHF 1,000)				
Debenture	300,000	2012 – 2020	1.250%	no	3.7.
Debenture	400,000	2013 – 2023	1.500%	no	17.4.
Debenture	350,000	2017 – 2029	0.625%	no	24.5.
Total non-current financial liabilities	**1,050,000**				

External financing is subject to standard guarantees and covenants, which were complied with as at the reporting date. In addition, unused credit facilities at the reporting date amounted to a total of CHF 239.9 million.

9 PROVISION FOR AIRCRAFT NOISE

(CHF 1,000)	2018	2017
Balance as at 1 January	**485,259**	**497,599**
Decrease in provision for aircraft noise	–16,831	–12,340
Balance as at 31 December	**468,428**	**485,259**
of which current (planned payment within 1 year)	31,256	50,120
of which non current (planned payment from 1 year on)	437,172	435,139

The decrease in the provision for aircraft noise comprises the balance of revenue from noise charges plus noise-related costs and expenses:

(CHF 1,000)	2018	2017
Revenue from noise charges	11,629	11,561
Costs for sound insulation and resident protection	–12,617	–17,318
Costs for formal expropriations	–366	–570
Noise-related operating costs	–3,402	–3,295
Amortisation of intangible asset from right of formal expropriation	–3,417	–3,941
Interest income and realised/unrealised gains/losses on financial assets of Airport of Zurich Noise Fund	–8,658	1,223
Total decrease of provision for aircraft noise	**–16,831**	**–12,340**

For information on the reporting of noise-related data in the financial statements according to the Swiss Code of Obligations, see also Reporting of noise-related costs in the financial statements in the notes to the financial statements.

10 EQUITY AND CAPITAL CONTRIBUTION RESERVES

The share capital of Flughafen Zürich AG amounting to CHF 307,018,750 is composed of 30,701,875 fully paid-up registered shares with a par value of CHF 10.

At the reporting date, the capital contribution reserves amounted to CHF 215.3 million (2017: CHF 313.5 million).

11 TREASURY SHARES

(Number of shares)	2018	2017
Balance as at 1 January	**2,094**	**5,713**
Acquisitions (at applicable market price)	5,185	2,349
Allocation to management, employees and third parties 1)	–5,624	–5,968
Balance as at 31 December	**1,655**	**2,094**

1) See also note 17, Equity interests of members of the Management Board, other members of management and employees.

In the reporting period, 5,185 registered shares were purchased at the market price (2017: 2,349 registered shares). Treasury shares are distributed to members of the Management Board and other members of management under the bonus programme. They are used primarily for this participation programme. In addition, Flughafen Zürich AG gives those employees who have completed their first year of service a one-off gift in the form of one share free of charge.

12 OFF-BALANCE SHEET LEASE OBLIGATIONS

The maturity structure of lease liabilities that will not mature or cannot be cancelled within twelve months is as follows:

(CHF 1,000)	31.12.2018	31.12.2017
Due within 1 year	1,887	1,887
Due between 1 and 5 years	1,207	3,094
Due in more than 5 years	0	0
Total unrecognised finance lease liabilities	**3,094**	**4,981**

13 CONTINGENT LIABILITIES

A number of legal proceedings and claims against Flughafen Zürich AG in the context of its normal business activities are still pending. The company does not expect the amounts required to settle these lawsuits and claims to have a significantly negative impact on the financial statements and cash flow of Flughafen Zürich AG.

Depending on future and final-instance legal judgements, especially with respect to the southern approaches, in particular the new noise-related liabilities, but also the old ones, may in future be subject to substantial adjustments, which would also require adjustments to the noise-related costs recognised as assets and liabilities in the balance sheet. At the present time, it is not possible to reliably estimate the total costs to capitalise as an intangible asset from the right of formal expropriation, the resulting amortisation or the corresponding provision.

Flughafen Zürich AG is jointly and severally liable to third parties for the liabilities of the co-ownership structure THE CIRCLE and the ordinary partnership THE CIRCLE.

14 NET REVERSAL OF HIDDEN RESERVES

In the 2018 financial year, hidden reserves totalling CHF 57.6 million were reversed (2017: CHF 4.0 million). In this context, in the reporting period, hidden reserves of CHF 51.7 million were reversed owing to the different methods of reporting noise-related data in the consolidated financial statements in accordance with IFRS and in these financial statements under the Code of Obligations (see also “Reporting of noise-related costs in the financial statements”).

15 MAJOR SHAREHOLDERS

As at the reporting date, the following shareholders or groups of shareholders held at least 5% of the voting rights:

	2018	2017
Canton of Zurich	33.33%	33.33%
City of Zurich	5.00%	5.00%

16 SHARES HELD BY THE BOARD OF DIRECTORS

As at the reporting date, members of the Board of Directors and related parties held the following number of shares:

Name	Function	Number of shares as at 31.12.2018	Number of shares as at 31.12.2017
Andreas Schmid	Chairman	15	20
Vincent Albers	Member	2,217	117
Guglielmo L. Brentel	Member	309	309
Josef Felder	Member; Chairman Audit & Finance Committee	25,000	25,000
Stephan Gemkow	Member	100	100
Corine Mauch	Member	0	0
Eveline Saupper	Vice Chairwoman; Chairwoman Nomination & Compensation Committee	675	675
Carmen Walker Späh	Member; Chairwoman Public Affairs Committee	5	5
Total		**28,321**	**26,226**

17 EQUITY INTERESTS OF MEMBERS OF THE MANAGEMENT BOARD, OTHER MEMBERS OF MANAGEMENT AND EMPLOYEES

As part of the performance-related remuneration awarded to members of the Management Board and other members of management, 1,921 shares (2017: 1,960 shares) worth CHF 394,189 (2017: CHF 423,360) were distributed to members of the Management Board and 3,560 shares (2017: 3,849 shares) worth CHF 730,512 (2017: CHF 831,384) were distributed to other members of management in the reporting period.

As at the reporting date, members of the Management Board and related parties held the following number of shares:

Name	Number of shares as at 31.12.2018	Number of shares as at 31.12.2017
Stephan Widrig	4,650	3,858
Lukas Brosi	698	464
Stefan Gross	515	218
Daniel Scheifele	532	235
Stefan Tschudin	130	5
Total	**6,525**	**4,780**

In addition, Flughafen Zürich AG gives those employees who have completed their first year of service a one-off gift in the form of one share free of charge. In the reporting period 140 shares (2017: 151 shares) worth CHF 28,506 (2017: CHF 33,644) were handed out in this context.

18 SIGNIFICANT EVENTS AFTER THE REPORTING DATE

The Board of Directors authorised the 2018 financial statements according to the provisions of the Swiss Code of Obligations (CO) for issue on 7 March 2019. These also have to be approved by the General Meeting of Shareholders.

No events occurred between 31 December 2018 and the date on which the financial statements according to the provisions of the Swiss Code of Obligations were authorised for issue by the Board of Directors which would require an adjustment to the carrying amounts of the assets and liabilities in the financial statements according to the provisions of the Swiss Code of Obligations or which would have to be disclosed here.

PROPOSAL FOR THE DISTRIBUTION OF AVAILABLE EARNINGS

The Board of Directors will propose to the General Meeting of Shareholders that the available earnings be used as follows:

(CHF 1,000)	
Profit for the year	298,729
Profit brought forward	1,316,090
Available earnings	**1,614,819**
Allocation to the legal retained earnings [1)]	0
Payment of an ordinary dividend of CHF 3.70 (gross) [2)]	113,597
To be carried forward	1,501,222

In addition to the ordinary dividend as proposed above, the Board of Directors will request that an additional dividend be distributed as follows from the capital contribution reserves:

(CHF 1,000)	
Capital contribution reserves before distribution	**215,256**
Transfer from capital contribution reserves to voluntary retained earnings and payment of an additional dividend of CHF 3.20 (gross) [2)]	98,246
Capital contribution reserves after distribution	117,010

1) No allocation is being made to the legal retained earnings because these exceed 50% of the nominal share capital.
2) The dividend sum covers all outstanding registered shares. However, those shares held by the company at the time of declaration of the dividend are not eligible to a dividend. For this reason, the reported dividend sum may be correspondingly lower.

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To the General Meeting of
Flughafen Zürich AG, Kloten

Zurich, 7 March 2019

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Flughafen Zürich AG, which comprise the balance sheet, income statement and notes (pages 135 to 146), for the year ended 31 December 2018.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming

our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibility* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Provision for formal expropriations

Area of focus	As of 31 December 2018, Flughafen Zürich AG recognized a provision for formal expropriations amounting to CHF 275.2 million. 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 for formal expropriations. Measuring this provision involves significant management assumptions and estimates. These assumptions and estimates involve judgment and are based on information available at the reporting date and affect the amounts recognized for the provision significantly. There is a risk that actual results which are largely beyond the Company's influence may differ from these estimates and assumptions and may result in material adjustments to the amounts recognized for the provision. Possible effects on the nature and scope of the business activities and thus on the balance sheet, the income statement and the statement of cash flows of Flughafen Zürich AG cannot be conclusively determined at present. Further information regarding the provision for formal expropriations are included in the notes to the consolidated financial statements under note 19.
Our audit response	We mainly performed the following audit procedures: • Sample-based review whether controls were documented before cash distribution as well as the analysis of the effects of these payments on the estimate of total costs • Analysis of semi-annual noise reports submitted to the Group's management and the Board of Directors as well as evaluation of consequential questions • Inspection whether current total cost estimates are adjusted upon decisions by the court of final appeal On the basis of our audit procedures, we have no objections regarding recognition and measurement of the provision for formal expropriations.

Property, plant and equipment

Area of focus	Property, plant and equipment used for operations (assets in use) and assets under construction for operating activities together comprise 60% of total assets. In 2018, investments in property, plant and equipment amounted to CHF 194.7 million. Therefore, based on the absolute size, this item is significant for the balance sheet of Flughafen Zürich AG. The large number of different, partly very long-lived assets, the high transaction volume and the different expected useful lives as well as transfers between asset categories contain inherent risks regarding existence and valuation. Furthermore, there is a risk that existing, long-lived assets will be replaced by new assets without eliminating the residual value of the out-of-use assets. Additionally, there are risks regarding valuation, delayed recognition of depreciation charges as well as in determining the adequate useful life. Further information regarding property, plant and equipment is included in the notes to the consolidated financial statements under note 9.
Our audit 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 adequacy of useful lives assigned to single assets and alignment towards useful lives according to the internal manual • Evaluation of the assessment on existence of impairment triggers and discussion of resulting questions with the Controlling and Accounting department On the basis of our audit procedures, we have no objections regarding the existence and valuation of property, plant and equipment.

Other matter

The financial statements of Flughafen Zürich AG for the year ended 31 December 2017 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 26 February 2018.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Daniel Zaugg Licensed audit expert (Auditor in charge)	Daniel Lanfranconi Licensed audit expert

RESPONSIBILITY – EMPLOYEES

Flughafen Zürich AG employs around 1,700 people in over 70 different occupations. This diversity makes the airport operator one of the region’s most attractive employers. The company offers fair, market-based remuneration, equal opportunities for all, and promotes employees’ professional development. It also offers traineeships and internships.

Zurich Airport is a unique place to work – as well as around 1,700 people who work for Flughafen Zürich AG itself, there are also over 27,000 employees of some further 280 companies who help ensure the airport runs smoothly, operate the commercial spaces and provide services.

The latest information about Flughafen Zürich AG as an employer and current vacancies can always be found on our website.

FLUGHAFEN ZÜRICH AG AS AN EMPLOYER

For the airport operator, its employees are the key to lasting success so its management of human resources is therefore geared to the long term. The key elements of this are set out in its human resources policy:

COOPERATIVE WORKING

Co-determination and active participation are essential elements of the company's values. Flughafen Zürich AG regularly conducts employee surveys and implements continuous improvement initiatives. Employees interact with one another respectfully, support each other and cultivate a culture of open and transparent communication.

CAREER DEVELOPMENT OPPORTUNITIES

Based on a personnel development concept, Flughafen Zürich AG takes specific personnel development measures to both retain and develop its employees and managerial staff. For instance, suitable employees can take up airport-related posts abroad and consequently benefit from the opportunity of developing their skills in an international environment. The company offers a range of internal and external training and professional development opportunities.

TRAINEES AND INTERNS

Flughafen Zürich AG considers providing basic vocational education to be both an economic necessity and a social duty. It ensures that trainers have the necessary qualifications and practical experience and takes great care to choose the right interns and trainees. It also fosters the vocational, personal and social development of interns and trainees, ensuring they are well prepared to enter the world of work on completion of their education. Interns and trainees are often offered the opportunity to work at the airport after their training. These highly motivated employees are valuable additions to the workforce.

HEALTH MANAGEMENT

In-house health management activities focus on promoting and maintaining the health of the entire workforce, as healthy employees perform better and are more highly motivated. Moreover, absentee rates and staff turnover are reduced. Both the company and employees themselves share responsibility for the success of health management.

STAFF REPRESENTATION COUNCIL (PEV)

Flughafen Zürich AG has a staff representation council which represents employees' interests and liaises closely with the Management Board.

EQUAL PAY

Flughafen Zürich AG undertook an analysis of equal pay and found that the average pay gap between women and men is 3%. To permit an objective assessment of equal pay, average wages were compared at each function level. When comparing average wages of women and men, only the function levels in which there are sufficient numbers of women and men to permit comparison were analysed.

FLEXIBLE WORKING

Flughafen Zürich AG has recognised the need among its employees for a more flexible working environment and offers working models which help achieve a better work-life balance. It is important both to cover operational needs and take the fullest account possible of employees' individual needs by offering flexible arrangements. The primary objective is to have a highly efficient and service-oriented organisation with motivated, happy and healthy employees. Another aim is to offer flexible working conditions to increase the number of women in senior positions, and in particular encourage women to take up executive roles at the company. It is therefore important to offer various part-time models. Currently, 27% of all employees at Flughafen Zürich AG have part-time contracts. A total of 63% of women and 12% of men work part-time.

CORPORATE SOCIAL RESPONSIBILITY

With 31.1 million passengers and 278,458 flight movements, Zurich Airport is by far the largest airport in Switzerland and is consequently an infrastructure of national importance. 77 airlines connect Switzerland directly to 206 destinations all over the world. On the one hand, operating infrastructure like this creates thousands of jobs and boosts the attractiveness of Switzerland as a business location (Study on economic importance). On the other hand, flight operations are also not without some negative impacts, especially in the immediate vicinity of the airport.

For over forty years, Zurich Airport has operated on the same runway system. Like individual road transport and other forms of public transport, aviation has also seen considerable growth during this time. Today, Zurich Airport handles more than double the number of flight movements and almost five times as many passengers as it did when the runway system was last extended in 1976. Measures will therefore be necessary in the medium term to increase capacity so that Zurich Airport can fulfil the Swiss government's mandate to provide a safe and efficient transport hub to meet the demand for air transport. Such expansion will only be possible if the negative impacts of aviation operations can be further reduced and it can be successfully shown that the positive benefits of this transport infrastructure clearly outweigh the disadvantages. Flughafen Zürich AG engages in regular dialogue and discussions on such issues with its many stakeholders, fostering trust in its activities and laying the foundations for adapting its operational framework to meet growing demand. Zurich Airport will then be able to continue operating as Switzerland's sole hub airport as mandated by the federal government and in the interests of the country as a whole.

ASSOCIATIONS, INTEREST GROUPS AND POLITICAL DIALOGUE

As in previous years, Flughafen Zürich AG regularly engaged in dialogue with political stakeholders during 2018. In addition to providing information at regular intervals (for example in its political newsletter), this included liaising with neighbouring municipalities and various public agencies. As well as a regular dialogue conducted in a spirit of partnership, the focus this year was on transparent and open communication on the proposed change to the operating regulations (BR 2017). At the beginning of the public consultation, Flughafen Zürich AG informed around 50 municipalities and public agencies about the background to this request in personal presentations and talks and discussed the medium- and long-term development plans with the relevant persons responsible.

During 2018, Flughafen Zürich AG also intensified its collaboration with various regional and national business and industry associations and, directly and indirectly through these associations, was in regular contact with representatives of the legislatures and executives at all three levels of government.

AIRCRAFT NOISE

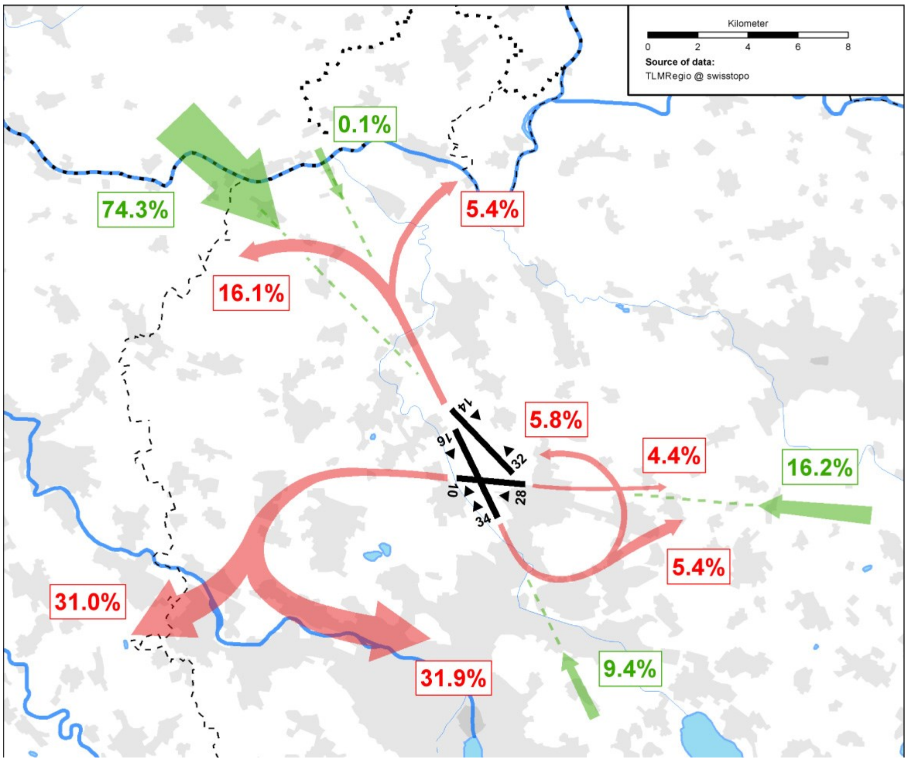
Flughafen Zürich AG dedicates considerable attention to the issue of aircraft noise. Its Noise Management department analyses the noise situation and documents it transparently.

NOISE MONITORING

Flughafen Zürich AG operates a network of 14 noise monitoring stations at fixed locations near departure and arrival routes. The data collected are published monthly in a noise bulletin.

In 2018, aircraft noise levels at all monitoring stations in daytime and during the first night hour remained on a par with the previous year. The monitoring station to the north (4) registered a decrease in noise exposure during the second night hour, while the monitoring station to the south (12) of the airport recorded an increase. Compared with the previous year, exposure to aircraft noise at all other measuring points remained stable during the second night hour.

Changes in exposure to aircraft noise are mainly related to the different usage of individual take-off and approach routes.



Usage of landing and take-off routes in 2018 (in % of total traffic). Routes with fewer than 50 flight movements per year are not shown.

NIGHT FLIGHTS AND SPECIAL AUTHORISATIONS

Night-time flights (10 p.m. to 6 a.m.) are often perceived as a disturbance by local residents. In 2018, night flights accounted for 5.0% (2017: 4.7%) of all flights. Special authorisations were issued for a total of 312 flights (2017: 311) during the night-time curfew period. Such night flights are only authorised when there are justifiable grounds for them.

FLIGHT PATH MONITORING

The Noise Management department monitors all departures for adherence to the prescribed flight paths which are mandatory during the daytime up to an altitude of 5,000 feet above sea level and at night up to flight level 80 (approximately 8,000 feet). In 2018, 178 (2017: 167) investigations were triggered and 25 (2017: 25) interviews with chief pilots were conducted. The most frequent reason for deviations from the prescribed flight paths were specific instructions from air traffic control.

NOISE CHARGES

Flughafen Zürich AG encourages airlines to operate the quietest possible aircraft on their connections to Zurich. All jet aircraft are assigned to one of five noise categories, each of which has a different charge rate for take-off and landing. In addition, the rates for night-time flights vary according to noise category and the specific take-off or landing time. In 2018, at around 54% (2017: 56%), noise category 4 accounted for the highest percentage of flights during the night (10 p.m.–6 a.m.).

An amended noise charge model was submitted to FOCA at the end of 2014. It provides for an increase in the off-peak night-time surcharge and an easing mechanism for airlines with long-haul connections (except for flights between 11 p.m. and 11.30 p.m.). An expert report (by Dr. A. Wittmer) published during the reporting year came to the conclusion that this amended model is inherently suitable for improving the steering effect of charges, in particular with regard to evening delays, without disrupting hub operations.

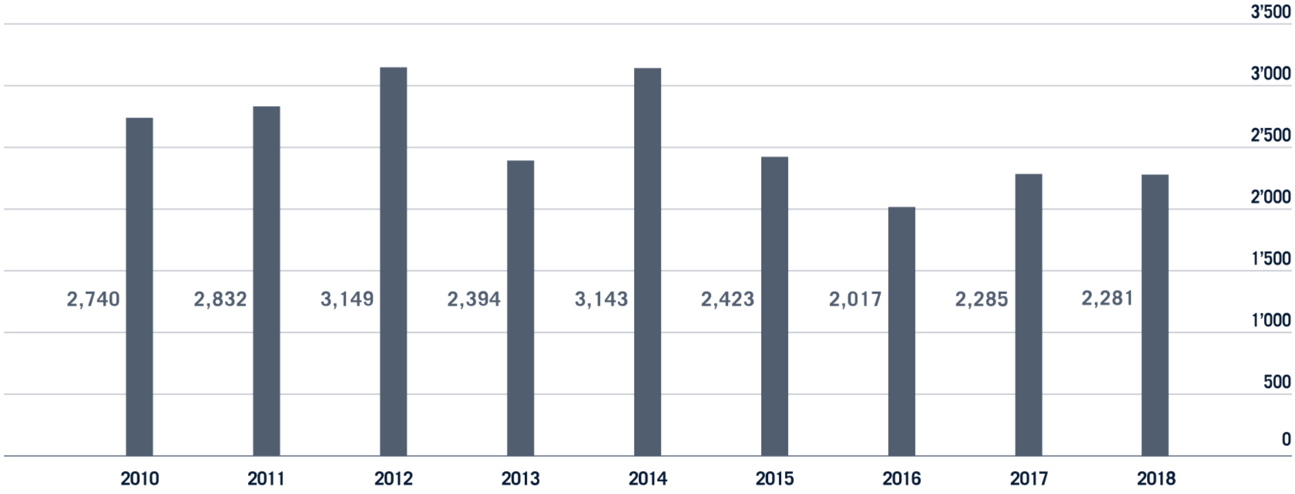
USE OF THE NOISE PROTECTION HANGAR

In 2018, a total of 567 aircraft engine tests (2017: 650) were performed in the noise protection hangar. The majority (82%) of engine tests carried out at night were for short-haul and medium-haul aircraft. Most aircraft engine tests for long-haul aircraft such as the A343, A333 and B777 and all other aircraft types were performed during the day.

In 2018, the maximum noise exposure level for engine tests was exceeded once. This is significantly less than the 25 instances permitted per year in accordance with the operating regulations. According to figures provided by the aircraft maintenance companies, 544 additional idle tests were performed on the apron and on the stands. A total of 419 idle tests were carried out during the day between the hours of 6 a.m. and 10 p.m., and 125 were run at night between 10 p.m. and 6 a.m.

COMMUNICATION WITH LOCAL RESIDENTS

Communicating with people in neighbouring communities is important to Flughafen Zürich AG. Local residents affected by aircraft noise can call or e-mail Flughafen Zürich AG directly with questions or complaints and staff from the Noise Management department will respond to specific questions. Landings on runway 34 constituted the most frequent cause for complaint during the reporting year. The number of complaints and queries received was on a par with the previous year.



■ Number of aircraft noise complaints and inquiries per year

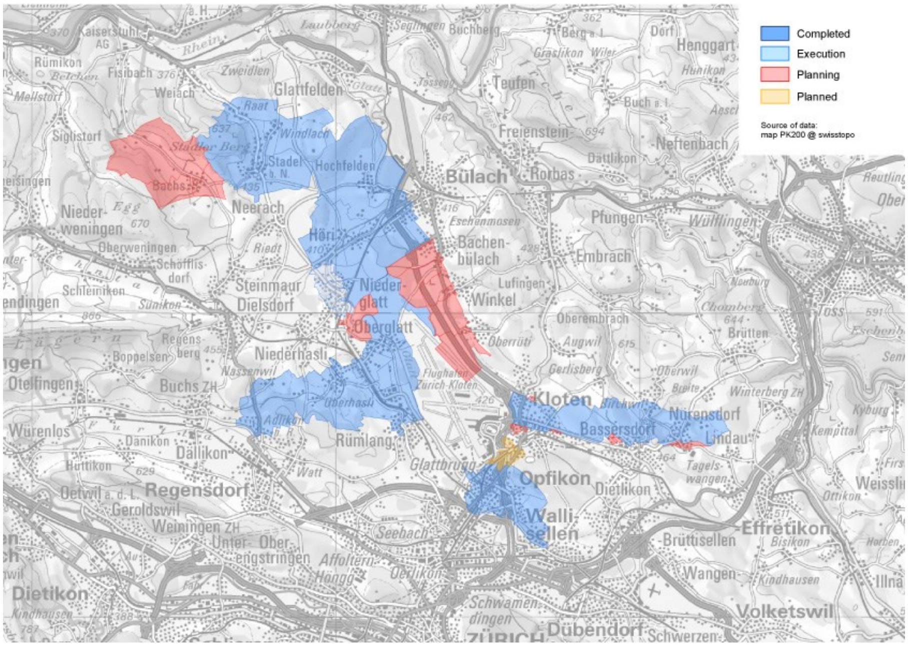
SOUND INSULATION

By installing sound-insulating windows, Zurich Airport protects residents of properties in the vicinity of the airport who are exposed to excessive aircraft noise.

SOUND INSULATION MEASURES AND REIMBURSEMENT

In addition to reducing engine noise, the sound insulation programme is a key element of the airport's efforts to minimise aircraft noise exposure. The programme includes and finances passive sound insulation measures in buildings of the neighbouring municipalities. As the airport's operator, Flughafen Zürich AG is obliged by law to fund these protective measures. Owners of properties with noise-sensitive rooms which are located within a clearly defined perimeter, and which were not subject to any obligation to install sound insulation during building or conversion, are entitled to benefit from the programme. Property owners who have already taken the initiative of fitting sound-insulating windows themselves are reimbursed by Flughafen Zürich AG.

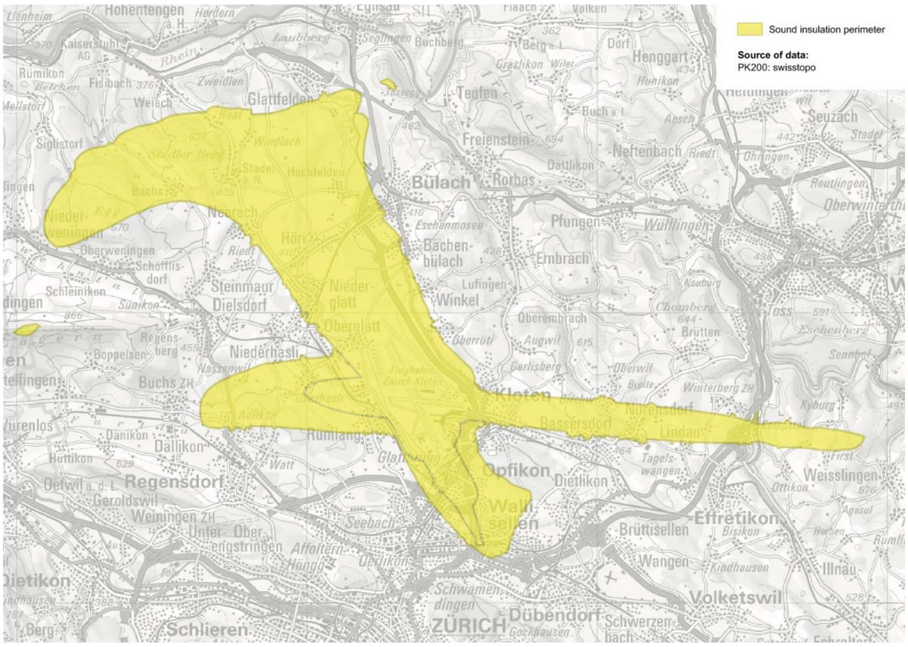
From 1999 through 2018, approximately CHF 249 million has been spent on sound insulation measures in around 6,200 buildings. Of approximately CHF 12.3 million expenditure in 2018, around CHF 0.6 million was spent on project planning, CHF 8.1 million on window upgrades and around CHF 3.6 million on reimbursements.



Overview of sound insulation measures in 2018 (Programme 2010, as at February 2018).

EXPANDED SOUND INSULATION PROGRAMME

In connection with approved noise exposure levels and its 2014 operating regulations application, FOCA required Flughafen Zürich AG to submit an expanded sound insulation programme by the end of June 2015. Flughafen Zürich AG duly submitted its 2015 sound insulation programme by this deadline. In a Swiss Federal Supreme Court ruling on 11 May 2018, the pending objection was rejected. The thus legally valid 2015 sound insulation programme is to be implemented within ten years pursuant to the public consultation.



Sound insulation perimeter for purely residential zones for sensitivity level (SL) II.

SOUTH-SIDE SOUND INSULATION CONCEPT

As part of its south-side sound insulation concept, Flughafen Zürich AG installed window-closing systems or sound-absorbing ventilators free of charge in bedrooms in numerous properties in Zurich, Opfikon, Wallisellen and Dubendorf.

A supplementary concept on the basis of a level of noise measurement (phase 2) was published for public consultation at the beginning of 2018. The corresponding decision by FOCA is expected in the course of 2019.

KEY NOISE-RELATED FIGURES FOR ZURICH AIRPORT

	2018	2017	2016
Number of residents [1] above alarm value for SL II [2]	not available [3]	5,215	5,437
Number of residents above immission limit for SL II	not available [3]	61,080	59,705
Number of residents above the planning value for SL II	not available [3]	164,115	159,556
Daytime aircraft noise levels [4] at NMT 1/3/6/10 (dB[A]) [5]	66/58/66/58	66/59/66/59	67/58/66/58
Number of engine ground tests in the noise protection hangar during the day/night	334/233	338/312 [6]	500/360
Number of exceedances of the permissible noise exposure level	1	5	1
Number of registered flight path deviations/investigated	4,558/178	4,721/167	4,055/154
Number of night flight movements (10 p.m.– 6 a.m.)	13,655	12,476	12,369
Proportion in the first hour (10–11 p.m.)	10,569	9,802	9,827
Number of special authorisations for night flights issued [7]	312	311	232
of which emergency, relief and rescue flights	61	46	66
of which police, military and government flights	28	18	20
of which various other types of flight	223	247	146
2010 Sound Insulation Programme: number of properties fitted [8]	6,200	6,000	5,500
Number of complaints and queries relating to noise [9]	2,281	2,285	2,017

1) Encompassing noise contours of the day and night noise limits.
2) Sensitivity level II (SL II) in accordance with Art. 43 of the Federal Noise Abatement Ordinance.
3) Figures will be calculated by Empa and published only after this report is printed.
4) Energy-equivalent continuous sound level of daytime aircraft noise (6 a.m. – 10 p.m.).
5) NMT = Noise Monitoring Terminal, 1 = Rümlang, 3 = Oberglatt, 6 = Glattbrugg, 10 = Nürensdorf.
6) Corrected number compared to the previous year's report.
7) Special authorisations can be granted for urgent flights operating during the night-time curfew.
8) Number of buildings and properties which have been renovated to date incl. Reimbursements.
9) Includes complaints and enquiries relating to noise levels, flight paths, development of the air traffic, etc.

ENVIRONMENTAL PROTECTION OVERVIEW

Flughafen Zürich AG is conscious of its considerable responsibility for taking a sustainable approach to the environment. As the holder of the operating licence for Zurich Airport, it ensures the airport can be operated and developed in an environmentally responsible way.

ENVIRONMENTAL POLICY AND REDUCTION TARGETS

Flughafen Zürich AG's environmental policy sets out the company's position on environmental protection and identifies key priority areas. Its efforts are focused on the areas of aircraft noise, air quality, climate protection, energy consumption and the preservation of natural habitats for animals and plants. Alongside its environmental policy, the company has set itself reduction and efficiency improvement targets in the areas of climate protection and energy.

ENVIRONMENTAL MANAGEMENT SYSTEM

Since 2001, Flughafen Zürich AG has used an environmental management system (EMS) certified to international standard ISO 14001:2015 to control all its own environmentally relevant processes and systematically reduce environmental impacts. Compliance and the effectiveness of the EMS are verified by annual external audits and supplementary internal audits.

IFU-CERT
Zertifiziertes Managementsystem
ISO 14001:2015

DIALOGUE

Engaging in open dialogue is very important to Flughafen Zürich AG. As well as the public at large, its stakeholders in relation to environmental issues include in particular local residents, administrative authorities, associations and interest groups, industry partners and technical bodies at a national and international level.

Flughafen Zürich AG also communicates transparently on environmental issues via a variety of channels, including for instance its interactive environmental exhibition, publications on specific topics, corporate publications, information events, social media and – by no means least – personal contact.

SCOPE

Environmental reporting relates generally to the entire Zurich Airport complex and encompasses all the activities of Flughafen Zürich AG and its partners within the airport perimeter as defined in the Sectoral Aviation Infrastructure Plan (SAIP) for Zurich Airport. However, the targets mentioned in the individual sections relate solely to areas that Flughafen Zürich AG is able to influence directly.

AIR QUALITY

Zurich Airport's operations produce some emissions that affect air quality. The impact of these is essentially local, however.

EMISSIONS

At Zurich Airport, air pollutants arise from the following four source categories: aircraft, handling operations, the airport's infrastructure and landside traffic. Because pollutants are produced primarily from the combustion of fossil fuels such as kerosene, diesel or petrol, aircraft are responsible for the majority of emissions, namely around 90% of nitrogen oxides.

As they can be considered an indicator pollutant, nitrogen oxides (NO_X) are generally indicative of the overall air quality. Particulate matter (PM) and ozone (O_3) are also important. Flughafen Zürich AG maintains an emissions inventory which records how much of each individual pollutant is emitted annually. Zurich Airport comfortably meets the applicable nitrogen oxide emission limits.

POLLUTION

Once discharged into the atmosphere, emissions do not remain in the same state – their composition changes, and they are diluted and dispersed before actively becoming pollutants. These pollutants are measured at certain points and are also modelled over the area as a whole.

This mathematical modelling is based on the emissions inventory and additional information about the time and location of emissions. Combined with meteorological data, it is then possible to calculate the distribution of the pollutants using special software.

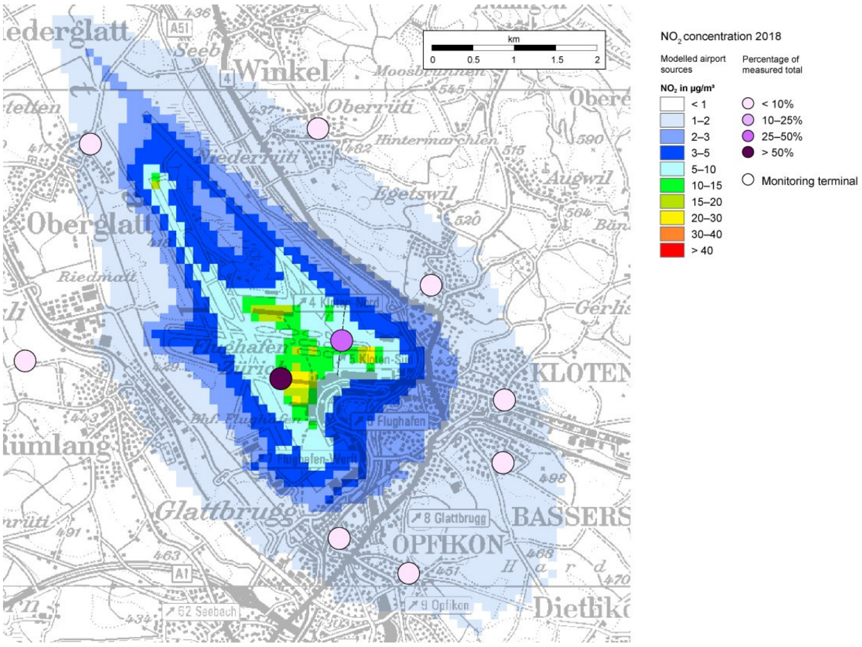
A network of monitoring equipment which measures actual concentrations has been set up across the airport and the surrounding region. Both fully automatic monitoring stations that measure the levels of several pollutants at the same time as well as passive collectors that measure the nitrogen dioxide content in the air are used. Both types of monitoring station are operated on behalf of the airport by the Office of Waste, Water, Energy and Air (AWEL) of the Canton of Zurich.

Passive collectors are used to measure the concentration of nitrogen dioxide.

SITUATION IN 2018

The quantity of nitrogen oxides NO_X emitted by airport sources increased again, by 10% compared with the previous year. This is largely due to a rise in the number of flight movements with generally larger aircraft, which produced a correspondingly higher quantity of emissions.

By contrast, measured pollutant values were lower. Although the limits were exceeded on the apron and along the main roads in the region at certain times, levels of pollution from the airport fall rapidly, the further away one gets from the airport. Outside its perimeter, emissions from the airport account for a maximum of 10% of the total air pollution measured there.



Impact of the airport on local air quality.

MEASURES TO REDUCE POLLUTANT EMISSIONS

Flughafen Zürich AG has already taken a number of steps to help reduce air pollutant emissions. It has levied emission-based landing charges since 1997: the more pollutants an engine emits, the higher the charge. This then creates a monetary incentive for airlines to use low-emission engines.

The airport also has a major influence on efforts to reduce fuel consumption on the ground and consequently reduce the associated emissions. Airport Collaborative Decision Making (A-CDM) is a concept aimed at enabling aircraft to efficiently taxi out to the start of the runway and avoid queuing times. The same principle also applies to landing – aircraft are already lined up optimally in the air so they can then be integrated in inbound processes without delays.

Similarly, decisions about where to site aviation infrastructure on the ground have a direct influence on subsequent pollutant emissions: shorter routes mean fewer emissions.

Another important measure is the provision of fixed ground power systems. Thanks to these, on-board auxiliary power units for electricity and air conditioning can remain switched off while more energy-efficient sources are used instead. The new “Golf” aircraft stands have all been equipped with ground power units.

For many years now, the use of ground vehicles powered by electric motors rather than internal combustion engines has helped to cut emissions. The number of electric-powered vehicles and equipment used for aircraft servicing and ground handling at Zurich Airport is continually rising – they already make up over 30%.

INTERNATIONAL COOPERATION

Internationally, Flughafen Zürich AG is among the world's leading pioneers in matters of air quality. It offers its expertise in various international organisations and technical bodies, sharing know-how and new ideas with other airports around the world. It is also involved in the further development of models, regulations and technology.

GLOBAL CLIMATE

Flughafen Zürich AG is committed to protecting the climate. Over the past 20 years, the company has succeeded in cutting its CO_2 emissions by over 40%.

CO_2 SOURCES

Of the known greenhouse gases, only carbon dioxide (CO_2) is produced in relevant quantities at Zurich Airport. Each year the quantities emitted are recorded in a CO_2 inventory.

In accordance with the Greenhouse Gas Protocol (GHG protocol), the CO_2 sources are allocated to different spheres of influence known as “scopes”. Scope 1 comprises airport-owned or controlled sources. These mainly include heating systems, own electricity production, and Flughafen Zürich AG’s vehicle fleet. Scope 2 is off-site electricity generation, i.e. electricity that is bought in. Finally, scope 3 covers all other airport-related sources. This includes all ground handling systems, feeder traffic, and the actual aircraft.

MEASURES TO REDUCE CONSUMPTION

The level of CO_2 emissions is directly linked to the use of fossil fuels. All steps taken to reduce the use of fossil energy sources will therefore benefit the climate. Flughafen Zürich AG is focusing on reducing its scope 1 CO_2 emissions by upgrading its built infrastructure in order to reduce heat demand. In addition, it is constantly optimising the heating, ventilation and air conditioning systems in its buildings to cut electricity consumption. Any new builds are planned and built to be energy-efficient in line with the latest standards. It is also renewing its vehicle fleet with fuel-efficient vehicles and gradually replacing diesel or petrol-engined ones with electric vehicles.

In the course of the reporting year, 38 new public charging points for electric vehicles were installed for visitors in car park P6.

AIRPORT CARBON ACCREDITATION

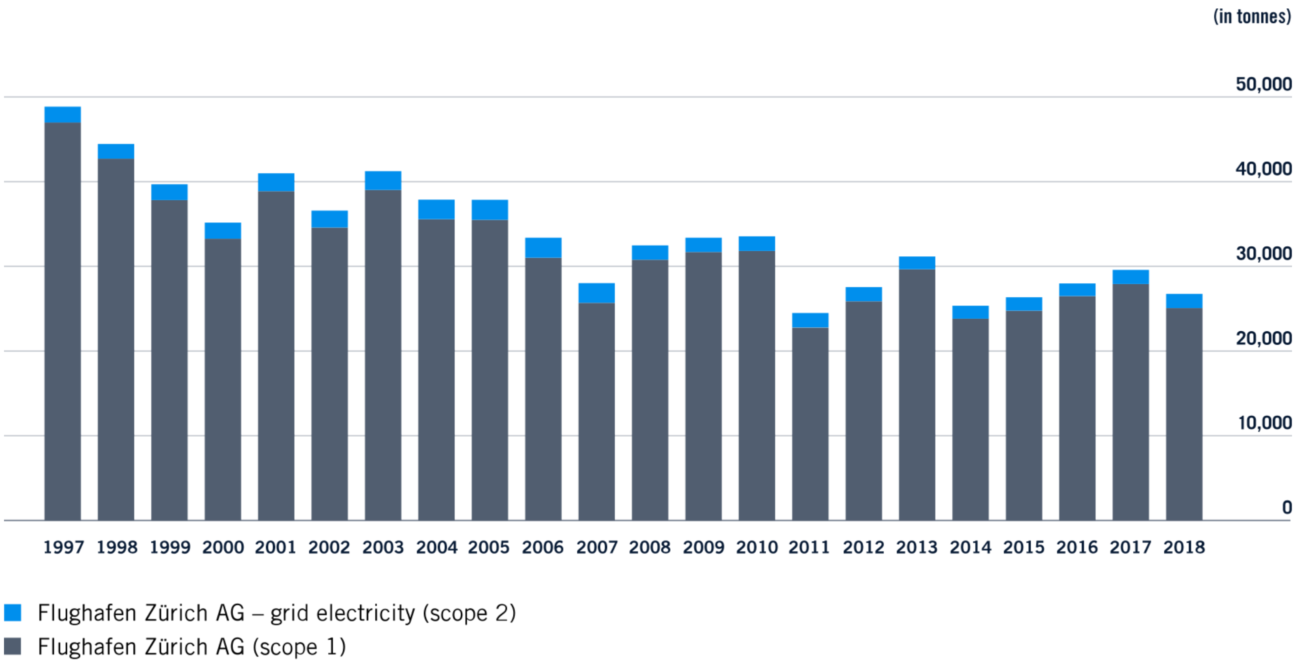
The airport’s efforts to reduce CO_2 emissions have been recognised by Airport Carbon Accreditation (ACA) since 2010. ACA is an initiative of ACI EUROPE which encourages airports to reduce their CO_2 emissions and recognises their achievements in doing so. The programme now extends to airports on all continents. There are four levels of award, with the highest level signifying that airport operations are carbon-neutral.

Zurich Airport has been accredited at the second-highest level, which means that Flughafen Zürich AG is continually reducing its CO_2 emissions and is helping its partners to cut their emissions too.

airport carbon accredited OPTIMISATION

SITUATION IN 2018

In the reporting period, CO_2 emissions at Zurich Airport amounted to 25,143 tonnes in scope 1, 1,657 tonnes in scope 2 and 4,113,904 tonnes in scope 3. The clear decline in scope 1 is due primarily to lower heating demand during the heating period.



CO_2 emissions at Zurich Airport by scope since 1997.

REDUCTION TARGETS

Flughafen Zürich AG has set itself ambitious targets for reducing its scope 1 and 2 CO_2 emissions. It has already met its target for cutting emissions to 30,000 tonnes ahead of 2020. It is aiming to reduce these emissions still further to 20,000 tonnes by 2030. This represents a reduction in CO_2 emissions of more than 50% compared with 1991, despite significantly expanded infrastructure.

REDUCTION TARGET 2030

20,000 t

The goal is to reduce CO_2 emissions to 20,000 tonnes by 2030.

ENERGY

Flughafen Zürich AG provides the entire airport with a reliable and efficient supply of electricity and heat.

ENERGY STRATEGY 2030

With its “Energy Strategy 2030” Flughafen Zürich AG is seeking to ensure a secure, economic and environmentally responsible energy supply for the whole airport in the future. The strategy aims to reduce primary energy consumption, smooth out peak demand and increase the airport’s energy autonomy.

Operational optimisations and upgrades to existing infrastructure are key pillars in the drive to reduce energy demand.

MORE ALTERNATIVE SOURCES OF ENERGY

Flughafen Zürich AG uses a number of different technologies and sources of energy to provide reliable and efficient heating, air conditioning and electrical power. Using a combined heat and power generation system, the airport's own heating plant provides both electricity and heat, which is distributed over an extensive district heating network. The main fuel is natural gas. Superficial geothermal energy extracted with heat exchangers is utilised for heating and cooling some buildings.

In addition to generating electricity in its own heating plant, the percentage of electricity generated by photovoltaic systems at the airport is steadily increasing. Two new systems on the roof of the Prime Center 1 and car park P1 came on stream during the reporting year. This boosted the installed capacity by 686 kW_p to a total of 1,754 kW_p. Further arrays are planned.

PHOTOVOLTAIC ENERGY

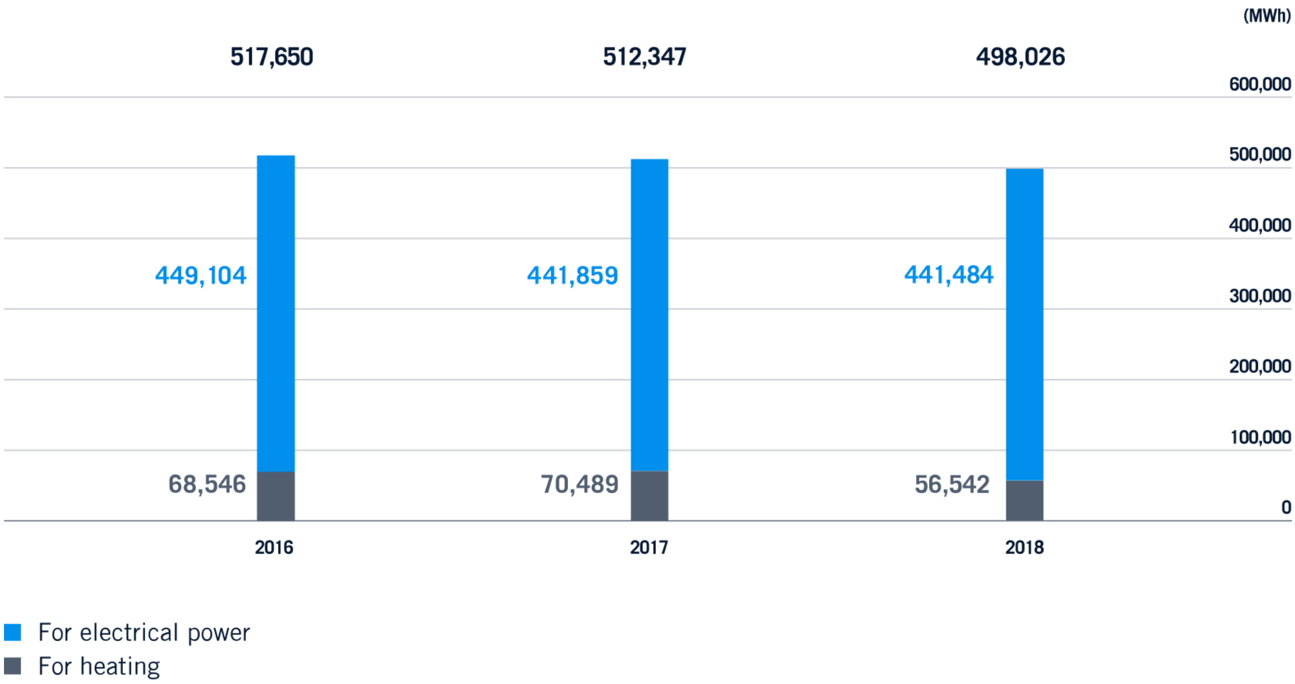
1,754 kW_p

The photovoltaic arrays increased their output in 2018 by 686 kW_p to 1,747 kW_p.

ENERGY DEMAND IN 2018

In the reporting period, demand for heating declined owing to the high average temperatures. Despite higher cooling demand, the electricity requirement remained on the same level as in the previous year.

During the reporting year, 94,236 MWh of heat and 162,549 MWh of electricity were consumed at Zurich Airport. Expressed as primary energy, this equates to a total demand of 498,026 MWh, a decline of three percent compared with the previous year. Primary energy also includes the energy necessary for generation and transmission which is required before an energy vector can be used as final energy (electricity, heating).



LARGE-SCALE CONSUMERS AGREEMENT

As a large-scale consumer, Flughafen Zürich AG has signed an agreement with the Building Department of the Canton of Zurich. This obliges the company to make average annual efficiency improvements of 2% until 2030, measured on the basis of the number of user units and the heated area of the airport. The target for specific energy consumption was also met in the reporting period.

ANNUAL INCREASE IN EFFICIENCY

2%

The annual increase in efficiency must amount to at least 2% by 2030.

MEASURES

Flughafen Zürich AG constantly strives to reduce its energy demand and improve the efficiency of its buildings and systems. As well as its building renovation programme, such measures also include optimising existing systems.

NATURE AND LANDSCAPE

Extensive natural spaces are also to be found within the airport's perimeter. Flughafen Zürich AG bears a great responsibility for protecting and preserving the ecological value of these areas as a habitat for animals and plants.

VALUABLE HABITATS

When Zurich Airport was originally planned in the 1940s, it was sited in the middle of reed meadows. As a result, the airport perimeter still encloses extensive areas of high ecological value, even right between the runways in some cases. This creates a varied mosaic of different habitats where rare plants and animals can thrive as the fence protects them from being disturbed.

Of approximately 953 hectares in total, around half comprise green spaces. 53 hectares are designated nature conservation areas.

DESIGNATED NATURE CONSERVATION AREAS

53 ha

53 ha of the total airport site of 953 ha comprise designated nature conservation areas.

PREVENTION OF BIRD STRIKES

With its wooded areas, watercourses and large open spaces, the airport also attracts a large number of bird species. However, large birds and flocking birds in particular can present a safety risk for aircraft. Collisions between birds and aircraft (known as bird strikes) can have serious consequences and so must be avoided at all costs.

Management of the green spaces is therefore designed to make the airfield less attractive to birds. Most of the open spaces are managed as extensively used high-grass meadows. This is both environmentally friendly and also helps to reduce the risk of bird strikes. The high grass makes it difficult for birds of prey to spot their prey on the ground and it also discourages flocking birds from settling there.

Specific steps have also been taken to reduce the birds' food supply – for instance weasels are encouraged because as mousers they compete with birds of prey in hunting small mammals.

ENVIRONMENTAL COMPENSATION

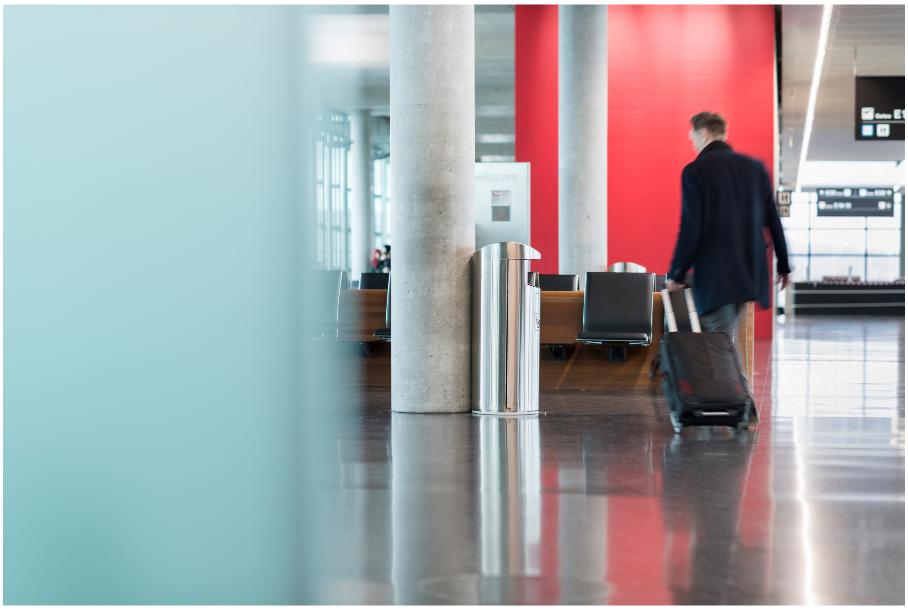
Preserving the ecological value of natural spaces also requires action to protect these green spaces from the impact of building projects. Flughafen Zürich AG is obliged to establish in advance the ecological value of the green spaces that it intends to build on and to offset this with measures of equivalent value. This can be done by upgrading areas elsewhere, for example during the reporting year two existing nature conservation areas were upgraded to compensate for the green areas on which THE CIRCLE was built.

WASTE

Flughafen Zürich AG disposes of the waste for the entire airport. Systematic waste management enables almost all waste to be disposed of either thermally or by recycling.

SUSTAINABLE USE OF MATERIALS

As a major transport hub handling cargo and tens of thousands of people every day with constantly expanding infrastructure, Zurich Airport generates a considerable volume of waste. Flughafen Zürich AG therefore prioritises avoiding waste from the outset. Where this is not feasible, it collects recyclables separately and disposes of residual waste in an environmentally responsible manner.



MATERIAL RECYCLING AND ENERGY RECOVERY

Flughafen Zürich AG handles the disposal of its own waste as well as the majority of waste from other companies at the airport. Wherever possible and expedient, it makes every effort to collect recyclables separately and send them for recycling. In Switzerland, energy is recovered from general waste through combustion. Such waste from Zurich Airport is burned in a waste incineration plant and the heat produced is used to generate electricity and supply a district heating network.

RECYCLING RATE

96.4%

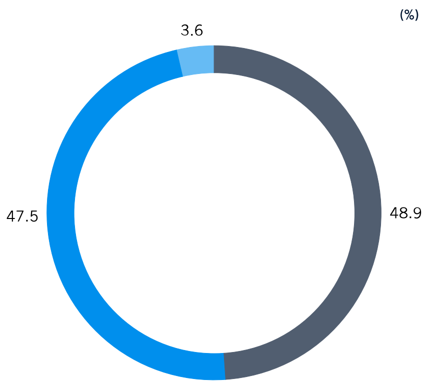
TRENDS DURING THE REPORTING YEAR

The overall quantity of waste at Zurich Airport increased sharply in the reporting period: it amounted to 20,960 tonnes, representing an increase of 15.5% on the previous year. The reason for the increase is, on the one hand, the rise in the quantity of waste which in turn is attributable to the higher passenger numbers, and on the other hand, because metal waste from the removal of facilities was included in the calculation. These are also the main reasons for the increase in the recycling rate.

Compared with 2017, the proportion of mixed waste decreased to 47.3%, while the proportion of waste sent for material recycling rose to 48.9%. The quantity of paper and cardboard collected dropped for the third time in a row and came to 2,865 tonnes. One reason for this is the decline in paper/cardboard waste from the aircraft, as fewer newspapers and magazines are offered, compared to previously.

The volume of PET collected and recycled increased significantly in the reporting year compared with 2017 and amounted to 280 tonnes. The 25% increase is partly a result of additional containers being installed in the terminals and the security check building and more PET bottles being separated out from aircraft waste.

The quantity of liquids confiscated at the security check was on a par with the previous year at 219 tonnes.



- **48.9%** Material recycling
- **47.5%** Thermal recycling
- **3.6%** Others

To enable a comparison with other airports to be made, the quantities indicated were defined by the German airports association (ADV).

WATER AND WATER PROTECTION

The cycle is closed: drinking and service water obtained from groundwater and rainwater is used responsibly. Waste water is cleaned and fed back into the natural water cycle.

FRESH WATER

The fresh water used at Zurich Airport comes from three different sources: firstly, drinking water comes from the municipal water supply for the town of Kloten. During the year under review, consumption of this was up 5.5% on the previous year. Secondly, groundwater is pumped away from under the main airport complex to keep dry older buildings that cannot be adequately sealed. Some of this water is used in technical processes and the remainder is channelled into the river Glatt. Thirdly, rainwater is used for flushing some toilets.

Consumption of fresh water at Zurich Airport	2018	2017	2016
Drinking water (m^3)	700,375	664,129	609,053
Groundwater (m^3)	124,119	123,591	118,066
Rainwater (m^3)	12,332	13,005	12,778
Total fresh water (m^3)	**836,826**	**800,725**	**739,897**

DRAINAGE PLAN

In line with its “avoid-separate-treat” approach, Flughafen Zürich AG aims to produce as little sewage as possible. Its general drainage plan includes both measures to ensure drainage systems comply with the law and specifications regarding the operation and maintenance of the existing sewage system.

DOMESTIC AND INDUSTRIAL WASTE WATER

The various types of waste water that arise at Zurich Airport are each treated in specific ways. Domestic waste water, from toilets or restaurant kitchens for example, is channelled into the local sewage treatment plant at Kloten-Opfikon where it is treated. The sewage plant, which is a joint venture between Flughafen Zürich AG and the municipalities of Kloten and Opfikon, is currently being renovated and extended (while operations continue uninterrupted). Special waste water, from workshops or from aircraft toilets for example, requires pre-treatment on the airport premises before it can likewise be sent to the sewage plant or otherwise appropriately disposed of.

AIRCRAFT AND RUNWAY DE-ICING

In order to ensure safe flight operations, in winter it is essential to keep both aircraft and operational areas free of ice. During the winter of 2017/18, 2,152 m^3 of de-icing agents (propylene glycol) were used for aircraft de-icing (+12% more than the previous year). A total of 1,580 m^3 of liquid de-icing agents (+21%) were required for runways, taxiways and aprons. 329 tonnes of conventional de-icing salts were additionally used on service roads, in the car parks and around the maintenance area. These quantities are considerably higher than the long-term average. However, the quantity of de-icing agents used can vary considerably from one winter to another depending on the amount of precipitation and ambient temperatures.

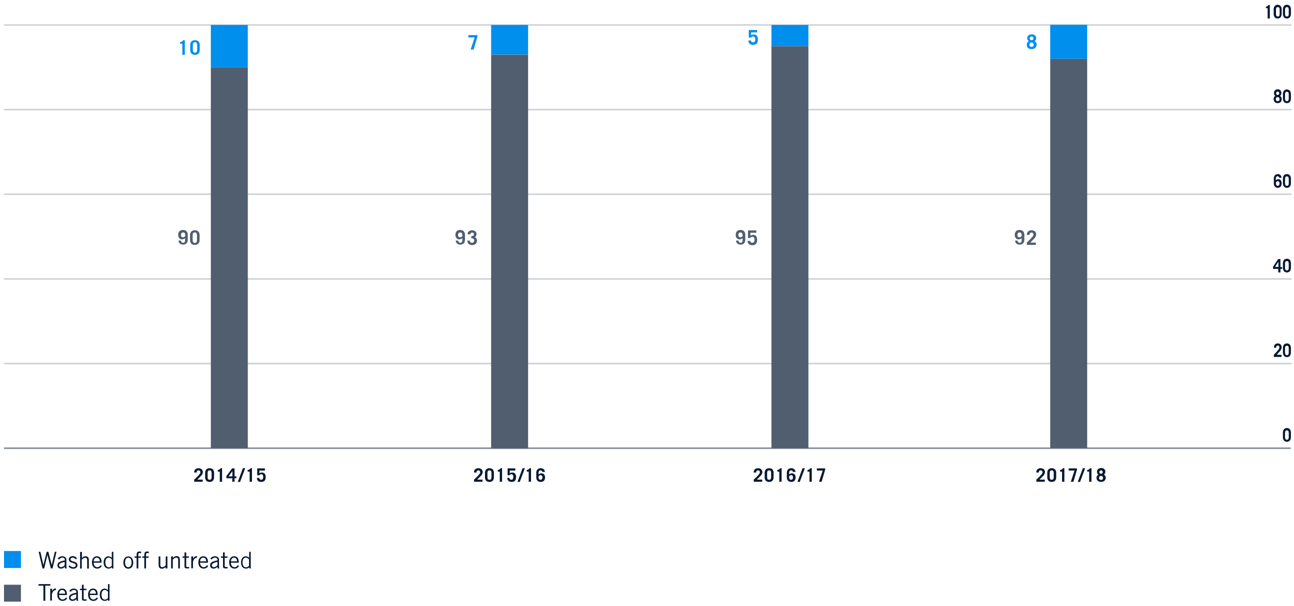
Consumption of de-icing agents at Zurich Airport	2017/2018	2016/2017	2015/2016
Aircraft de-icing agents (m^3)	2,152	1,921	1,390
Runway and road de-icing agents, formiate solution (m^3)	1,580	1,301	901
Surface de-icing agents, solid (tonnes)	21	0	0
De-icing salts for other surfaces (tonnes)	329	492	243
Untreated carbon washed away (aprons, runway and taxiways, %)	92	94	93

TREATMENT OF WASTE WATER FROM DE-ICING OPERATIONS

The sprinkler system sprays de-icer runoff onto grassed areas.

De-icing aircraft with hot water and propylene glycol as well as spraying potassium formate-based de-icing agents on operating surfaces results in waste water contaminated with carbon compounds. If waste water were to enter natural watercourses untreated, it would remove oxygen from the water and therefore cause problems for aquatic organisms. To prevent this, the waste water is collected and is then treated depending on the level of carbon concentration. Water that is only slightly polluted is first channelled through retention filter basins and then into the Glatt. Medium-contaminated waste water is sprayed over grassed areas using a special sprinkler system. As the water filters down through the soil, the glycol it contains biodegrades completely. Heavily contaminated waste water is treated in the airport’s two distillation plants, where the glycol is concentrated and then supplied as a raw material to industrial companies.

Over the winter of 2017/18, at 92% the amount of collected run-off was on a par with the previous year.



Amount of collected run-off from de-icing operations.

KEY ENVIRONMENTAL DATA FOR ZURICH AIRPORT

	2018	2017	2016
NO_x emissions in tonnes	1,484	1,351	1,280
Proportion from aircraft (tonnes) 1)	1,376	1,244	1,174
VOC emissions in tonnes	290	325	334
Proportion from aircraft (tonnes)	210	233	224
CO emissions in tonnes	1,400	1,511	1,494
Proportion from aircraft (tonnes)	1,307	1,418	1,385
PM emissions in tonnes	21	22	21
Proportion from aircraft (tonnes)	17	17	15
CO_2 emissions in tonnes at Zurich Airport, scope 1 2)	25,143	27,917	26,505
CO_2 emissions in tonnes at Zurich Airport, scope 2 3)	1,657	1,665	1,484
CO_2 emissions in tonnes at Zurich Airport, scope 3 4)	4,113,904	4,039,010	3,912,402
Overall consumption primary energy (MWh)	498,026	512,347	517,650
Annual water consumption (in m^3)	836,826	800,725	739,897
Overall waste amount (tonnes)	20,960	18,153	17,926
of which recyclable material (e.g. paper, cardboard, glass, wood) (%)	48.9	44.9	44.6
Confiscated liquids from security checks (t)	219	213	229

1) Flight operations in LTO cycle (up to 915 metres), taking into account actual engine power, APU, engine start-up and airframe
2) In accordance with the GHG Protocol: Flughafen Zürich AG's own sources (vehicles, machinery, heating)
3) In accordance with the GHG Protocol: Electricity sourced by Flughafen Zürich AG externally
4) In accordance with the GHG Protocol: Aircraft in LTO cycle and complete route (outbound flight only), calculated by Eurocontrol, other emissions sources at the airport (handling, other heating) and all landside traffic in the vicinity of the airport (approx. 3 kilometres) for all modes of transport

ECONOMIC IMPORTANCE

In addition to being a transport hub, Zurich Airport is also a major economic driver. With around 280 companies supporting over 27,000 jobs, it directly and indirectly generates value added of some CHF 5 billion. Moreover, the operation of Zurich Airport indirectly boosts the attractiveness of Switzerland as a business location and as a tourist destination in a variety of ways. 77 airlines connect Switzerland directly to 206 destinations, and consequently serve to connect the country to the most important business centres, popular tourist destinations and key export markets for our tourism and export industries. These were the findings of a study conducted by BAK Economics and INFRAS on behalf of Flughafen Zürich AG in 2017.

ACCESSIBILITY AS A KEY LOCATIONAL FACTOR

Accessibility is an important locational factor and a key determinant when multinational companies are choosing where to set up a business. It also affects whether local companies are able to grow and access new markets. High global and continental accessibility therefore enhances the attractiveness of a region and drives strong economic growth, which in turn creates more jobs and boosts prosperity. Zurich Airport and the airlines operating there are already ensuring above-average accessibility. However, the rising demand for air travel, increasing capacity constraints and the very small scope for growth available to Zurich Airport today are putting this advantageous position at risk. If it is to continue making a contribution to the region’s attractiveness as a business location in future, continued improvements to its operational framework are vital.

SWITZERLAND’S EXPORTERS RELY ON EFFICIENT AIR CARGO

Switzerland is a strong export nation. The majority of Swiss companies sell their high-quality products not only in Switzerland, but also increasingly in markets all over the world. Zurich Airport plays a pivotal role here. As well as carrying passengers, direct intercontinental flights also enable the fast, direct and very safe transport of Swiss products to key export markets. Through its air cargo operations, Zurich Airport is therefore also helping to strengthen Switzerland as a place to do business.

FURTHER INFORMATION

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RESULTS AND FINANCIAL INFORMATION

Other results and financial information: https://www.zurich-airport.com/the-company/investor-relations-en/.

2018 ANNUAL REPORT

The 2018 Annual Report of Flughafen Zürich AG is available in English and German and is now published online: https://report.flughafen-zuerich.ch/2018/en.

The German version is binding.