

Annual Report 2005



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The Annual Report is available in German and English. The German version is binding.

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Key data (5-year comparison)



Key financial data¹⁾

(CHF thousand, all amounts in accordance with International Financial Reporting Standards [IFRS])

	2005	2004	2003	2002	2001
Total revenue	702,229	683,686	601,719	566,362	575,271
of which revenue from aviation operations	418,877	411,754	347,110	328,837	319,829
of which revenue from non-aviation operations	283,352	271,932	254,609	237,525	255,442
Operating costs	338,282	328,712	304,215	320,693	351,595
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	363,947	354,974	297,504	245,669	223,676
EBITDA margin	51.8%	51.9%	49.4%	43.4%	38.9%
Profit	59,123	52,268	32,883	34,773	(11,541)
<i>Of which attributable to the shareholders of Flughafen Zürich AG</i>	<i>59,123</i>	<i>52,406</i>	<i>32,935</i>	<i>34,623</i>	<i>(11,541)</i>
<i>Of which attributable to minority interests</i>	<i>0</i>	<i>(138)</i>	<i>(52)</i>	<i>150</i>	<i>0</i>
Investments	124,300	200,115	303,453	547,102	666,039
Cashflow ²⁾	236,340	245,630	217,183	174,250	168,694
Ø Capital employed	2,569,922	2,644,421	2,638,304	2,408,216	2,148,830
Return on Ø capital employed (ROCE)	5.4%	4.9%	3.6%	3.4%	1.6%
Equity as of 31 December	805,999	756,446	708,687	740,339	721,667
<i>Of which attributable to the shareholders of Flughafen Zürich AG</i>	<i>805,999</i>	<i>750,126</i>	<i>702,634</i>	<i>734,118</i>	<i>721,667</i>
<i>Of which attributable to minority interests</i>	<i>0</i>	<i>6,320</i>	<i>6,053</i>	<i>6,221</i>	<i>0</i>
Return on equity	7.6%	7.2%	4.6%	4.8%	(1.5%)
Equity ratio	26.3%	24.0%	21.9%	24.9%	27.3%
Interest-bearing liabilities (net, in accordance with IFRS)	1,745,299	1,770,910	1,930,572	1,782,990	1,540,979
Interest-bearing liabilities (IFRS) / EBITDA	4.80x	4.99x	6.49x	7.26x	6.89x
Interest-bearing liabilities (nominal)	1,779,181	1,919,134	1,987,191	1,782,581	1,540,979
Interest-bearing liabilities (nom.) / EBITDA	4.89x	5.41x	6.68x	7.26x	6.89x
Key operational data	2005	2004	2003	2002	2001
Number of passengers (Zurich only)	17,884,652	17,252,906	17,024,937	17,948,058	21,012,871
Number of flight movements	267,363	266,660	269,392	282,154	309,230
Freight in tonnes	372,415	363,537	389,843	421,811	492,872
Number of full-time positions as of 31 Dec.	1,262	1,289	1,260	1,286	1,215
Number of employees	1,470	1,478	1,425	1,449	1,406
Key data for shareholders	2005	2004	2003	2002	2001
Number of issued shares	4,912,300	4,912,300	4,912,300	4,912,300	4,912,300
Proposed dividend per share (in Swiss francs)	1.00	0.00	0.00	0.00	0.00
Dividend total (in thousand Swiss francs)	4,912	0	0	0	0
Payout ratio	8.3%	0.0%	0.00%	0.00%	0.00%
Capital per share (in Swiss francs)	164.08	153.99	144.27	150.71	146.91
Earnings per share (in Swiss francs)	12.08	10.97	7.02	7.23	(2.38)
Share price (in Swiss francs) high	236.00	150.00	71.00	136.75	277.00
low	147.00	66.75	18.00	42.00	88.00
	Sec. number	SWIX symbol		Reuters	
Flughafen Zürich AG registered share	1,056,796	UZAN		UZAZn.S	

¹⁾ As a result of changes in accounting policies [see "Financial report", "Consolidated financial statements according to IFRS", "Accounting policies", "Change in accounting policies"], prior-year figures were restated.²⁾ Profit plus depreciation and amortisation and change in non-current provisions.

Address to shareholders



Andreas Schmid
Chairman of the Board of Directors

Josef Felder
Chief Executive Officer

Dear Shareholders,

2005 was a stable year for Unique (Flughafen Zürich AG). In the market environment, the most notable developments were the takeover of our main client, Swiss, by Lufthansa and a trend in passenger volume that was below expectations in the local passengers segment and above expectations in the transfer passengers segment. In the local passengers segment, the proportion of low-cost passengers fell slightly in 2005. Flughafen Zürich AG intends to address the low-cost market more intensively in the future. For the first time since 2002, our main client did not make any major adjustments to its fleet. As far as operations are concerned, 2005 was the first year in which the entire new infrastructure resulting from expansion stage 5 was utilised, and the feedback was very positive. The airport's clients greatly appreciate the quality of the new facilities. This has been confirmed by the results of passenger surveys, in which Zurich is judged one of the highest quality airports in Europe. It is pleasing to note that, despite the ongoing effects of the unilateral German ordinance, it was possible to significantly reduce delays at Zurich Airport last year, with the result that it is now once again among the world's leading airports in terms of punctuality. As the positive earnings trend indicates, the new commercial infrastructure, especially in Airside Center, clearly reflects the needs of consumers at Zurich Airport. This year's financial report was characterised and influenced by the new accounting policies governing aircraft noise (see below). The group closed the 2005 financial year with a profit of 59.1 million Swiss francs, which may be regarded as satisfactory in view of the current situation, even though it was not possible to achieve the original objectives. The Board of Directors is proposing the payment of a dividend of 1 Swiss franc per share. In the political arena, activities associated with the SIL process (Civil Aviation Infrastructure Plan), which is of strategic importance to Flughafen Zürich AG, were continued in the course of the year under review. The purpose of this complex process is to prepare a basis for the long-term operation of Zurich Airport and thus establish legal and planning security. The restricted competitiveness of Switzerland's civil aviation industry in many areas in comparison with other countries is a source of considerable concern and Flughafen Zürich AG is therefore actively engaged in dialogue with political decision-makers in order to bring about an improvement to the general situation.

Aircraft noise

Over the past few months, Flughafen Zürich AG has been working on solutions to sustainably reduce the risks associated with aircraft noise (financing gap; balance sheet risk). The most appropriate solution in the eyes of Flughafen Zürich AG, namely the takeover of the aircraft noise fund by the federal government without any financial consequences for the government, was rejected by the Council of States in May 2005. Thanks to close co-operation with the Canton of Zurich, it is possible to present a solution at the General Meeting of Shareholders by means of which the still existing risks associated with aircraft noise can be sustainably reduced and limited (see "Events occurring after the balance sheet date"). The objective here is to render these risks calculable and tolerable for the airport.

At the same time, the presentation of aircraft noise in this year's consolidated financial statements has been modified. A legal expertise prepared at the request of Flughafen Zürich AG by the Swiss Federal Office for Justice came to the conclusion that noise related charges should be regarded as part of the overall airport charges and not as individual, separable charges. As a result, the previous practice of presenting noise-related data in the form of a fund statement (without affecting the income statement) had to be changed. At the same time, the more stringent IAS 38 Intangible assets (revised) became effective on 1 January 2005. In view of these developments, the accounting policies governing noise-related data were revised and amended together with the auditors and external experts. Revenue from noise charges and the associated costs for sound insulation measures, plus operating costs arising in association with aircraft noise, are recognised in the income statement. Compensation for formal expropriations is capitalised as costs relating to the right of formal expropriation originally assigned to Flughafen Zürich AG in accordance with IAS 38.9-17, and amortised using the straight-line method over the remaining duration of the operating licence (i.e. up to 2051). The new accounting policy (including restatements) have already been applied in this annual report.

Takeover of Swiss by Lufthansa

At the end of March, agreement was reached concerning the step-by-step takeover of Swiss by Lufthansa. Flughafen Zürich AG welcomes and supports the new ties between the two airlines, which will result in the integration of Swiss into the successful Star Alliance.

Political environment

As before, uncertainties prevail at Zurich Airport and in its vicinity, both for the local population and for the operating company. Until the political process concerning the federal government's Civil Aviation Infrastructure Plan (SIL) has been concluded, it will not be possible for the airport to be operated on the basis of definitive operating regulations. It is also unclear when – and how much – noise compensation will have to be paid, since legal provisions are lacking concerning a variety of basic principles, and the necessary court rulings for closing these gaps are still pending. Against a backdrop of uncertainty concerning the future organisation of flight operations, a people's initiative was launched in the Canton of Zurich ("Plafonierungsinitiative") calling for a "realistic civil aviation policy". The main demands are for the restriction of landings and takeoffs to 250,000 a year, and an extended night-time curfew of at least nine hours. Flughafen Zürich AG is strongly opposed to this initiative since it is in contradiction to the operating mandate to secure the development of Zurich Airport in line with demand. In the view of Flughafen Zürich AG, an initiative of this sort would not be compatible with EU legislation that is applicable in Switzerland. No other international airport of a similar size is subjected to the restrictions on operating conditions called for by the initiative.

The government of the Canton of Zurich has put forward a counter-proposal that would provide Zurich Airport with scope for development. It is not possible to provide a conclusive assessment of the counter-proposal here since, at the time of writing, certain details still needed to be clarified.

It will not be possible to solve either the problems relating to the distribution of aircraft noise – which were triggered by the unilateral German ordinance – or the lack of legal and planning security by imposing restrictions on flight movements.

Civil Aviation Infrastructure Plan (SIL)

The Civil Aviation Infrastructure Plan (SIL) is a federal government area planning tool. The aim behind the plan for Zurich Airport that will result from this process is to provide legal and planning security for both the population and the airport. Furthermore, the conclusion of this process is a requirement for the approval of the definitive operating regulations of Zurich Airport. The Civil Aviation Infrastructure Plan is to define the medium-term and long-term principles for the future operation of Zurich Airport and to find demand-oriented solutions that meet the Federal Council's civil aviation objectives. The plan will also have to take account of social, environmental and economic aspects while guaranteeing the required degree of security. The Swiss Federal Office for Civil Aviation is responsible for the management and co-ordination of the SIL process. In our view, the parties involved in the process will probably have taken the main fundamental decisions by the end of 2009.

Operating conditions

In order to secure connections between Switzerland and the world's major destinations over the long term, it is essential to create the necessary conditions for the airport to remain competitive. The restrictions imposed by the unilateral German ordinance (DVO), but also the limited operating hours and the Swiss practice of passing on security and compensation costs to airport operators, all represent a significant disadvantage for Zurich Airport versus its European competitors.

Changes within the Board of Directors

The following changes took place within the Board of Directors during the year under review: Since he was no longer a member of the government of the Canton of Zurich, which had appointed him to the Board of Directors of Flughafen Zürich AG in 2000, Christian Huber stepped down in 2005.

Following the departure of Christian Huber, the government of the Canton of Zurich reviewed its representation on the Board of Directors of Flughafen Zürich AG, and decided to appoint one member of government plus two other representatives of its choice. In view of this decision, Dorothee Fierz, who had also been appointed to the Board of Directors of Flughafen Zürich AG by the government of the Canton of Zurich in 2000, stepped down at the end of June 2005.

Dorothee Fierz and Christian Huber made a significant contribution towards the stability of the group in the difficult period during which they served on the Board of Directors. Flughafen Zürich AG greatly appreciates their valuable contributions and wishes to express its sincerest thanks to them both.

The government of the Canton of Zurich appointed Lukas Briner (as of 1 May 2005) and Martin Wetter (as of 1 July 2005) to the Board of Directors.

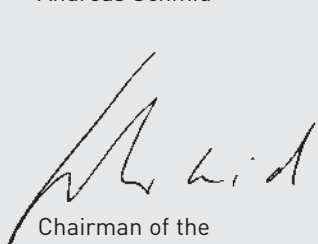
Thanks

We wish to express our appreciation to all our shareholders for their long-term commitment and the confidence they have placed in Flughafen Zürich AG, which is clearly reflected by the fact that the share price rose continually last year. We would also like to extend our thanks to our business clients, especially all airlines, licensees, commercial partners and tenants for their support and commitment, as well as to passengers and visitors for the trust and loyalty they have shown Zurich Airport. We look forward to providing quality airport services to suit everyone's needs in the future. Sincerest thanks, too, to all our employees for their valuable efforts throughout the year. Once again they clearly demonstrated that the company is able to perform well even in an unfavourable environment.

Zurich Airport, 8 March 2006

Andreas Schmid

Josef Felder



Chairman of the
Board of Directors



Chief Executive Officer
Board of Directors

Board of Directors and Management



Chairman

- Andreas Schmid
Chairman of the Board of Directors of
Kuoni Reisen Holding AG
Vice Chairman of the Board of
Directors of Barry Callebaut AG

Vice Chairman

- Dr. Lukas Briner (from 1 May 2005)
Director of the Zurich Chamber of
Commerce
Appointed by the government of the
Canton of Zurich
- Dr. Christian Huber (until 30 April 2005)
Former member of the Cantonal
Government

Members

- Martin Candrian
Chairman of the Board of Directors of
Candrian Catering AG
- Dorothee Fierz (until 30 June 2005)
Member of the Cantonal Government,
Head of Construction and Land
Development, Canton of Zurich
- Rita Fuhrer
Member of the Cantonal Government,
Economic Director of the Canton of
Zurich
- Dr. Elmar Ledergerber
Mayor of the City of Zurich
- Dr. Kaspar Schiller
Attorney-at-law, partner in the legal
practice of Schiller Denzler Dubs,
Winterthur
- Dr. Martin Wetter (from 1 July 2005)
Appointed by the government of the
Canton of Zurich
- Eduard Witta
Civil engineer, co-owner of MWV
Bauingenieure AG

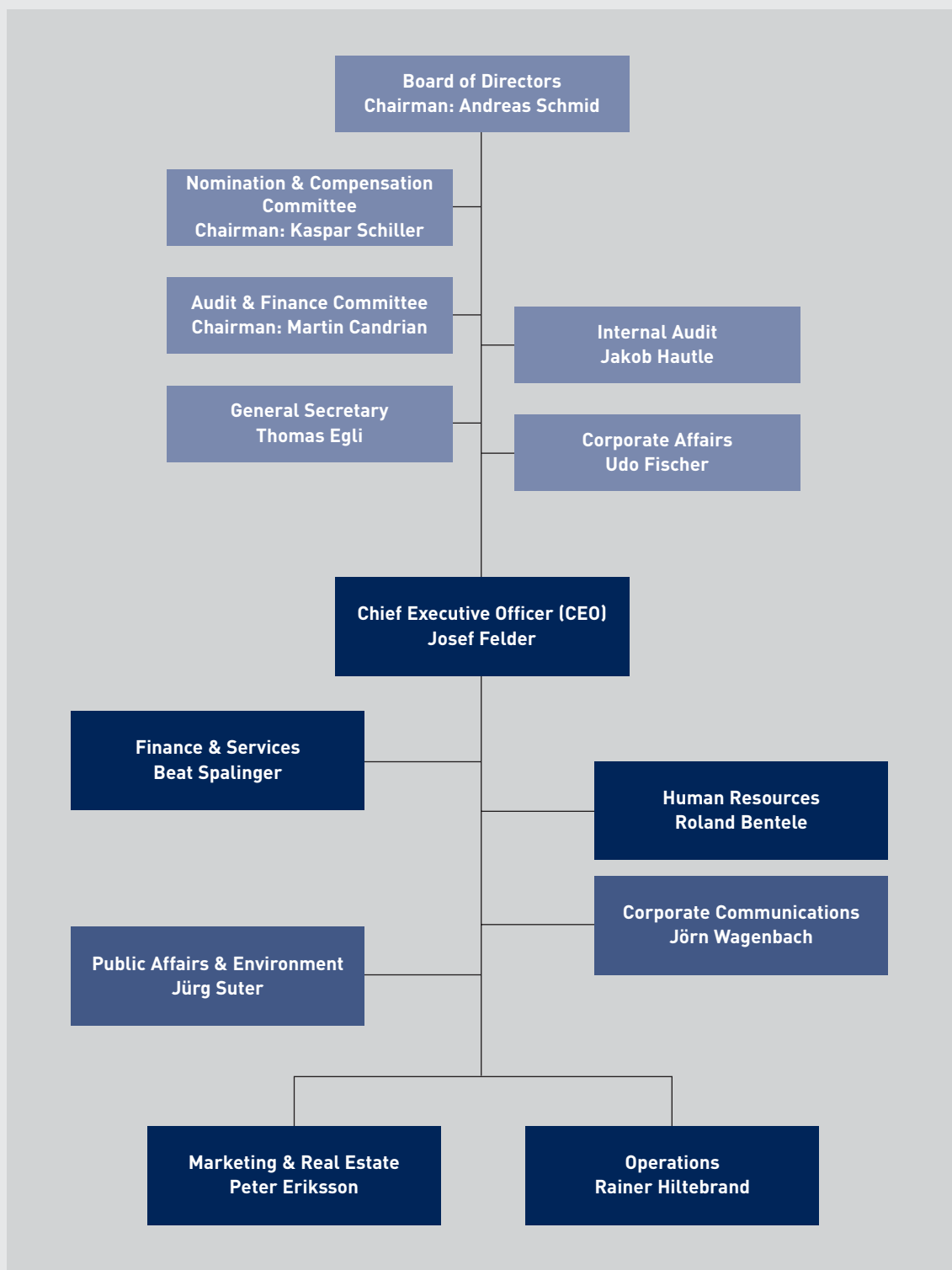
General Secretary

- Thomas Egli



Heidi Müller
Facility manager

Organisation chart, 2005





Thierry Blindenbacher
Commercial apprentice



Marietta Lombris
HR manager, Building cleaning services, Vocational training

Aviation business



Aviation business

With the completion of expansion stage 5, i.e. the handover of Airside Center for operation in September 2004, the focus of Flughafen Zürich AG in the year under review shifted towards its utilisation by clients. The new ultra-modern infrastructure is being utilised to the fullest possible extent in order to provide passengers and airlines with high-quality services. Recent surveys have shown that Zurich Airport is rapidly gaining in popularity, not least thanks to the significant improvements with respect to punctuality.

AETRA passenger survey

AETRA is a benchmark programme that is used for comparing 66 airports throughout the world by means of passenger surveys. In the first three quarter-year periods of 2005, Zurich Airport was given very high ratings and finished well in the top half of the table on each occasion. Zurich Airport's main plus points cited by the 23,000 or so passengers participating in each survey were its clear signposting, cleanliness, range of transport services to and from the airport, and its atmosphere of safety. These were followed by the professionalism of security checks, friendliness of personnel, the flight information systems and the short distances between areas of the airport, and praise was also expressed for the ease in finding connecting flights and the short waiting times at security checks.

Between eight and fifteen percent of passengers in Zurich praised its personnel (friendliness and competence) and the short waiting times at check-in desks. Positive and negative ratings of the airport's signposting and cleanliness, and the availability of shops and restaurants, were more or less balanced. In terms of general passenger satisfaction, Zurich Airport was placed in the top quarter (no. 16) world-wide, and within Europe (29 airports) it is currently ranked no. 2.

Punctuality

Punctual flight handling is a crucial factor for providing reliable and consistent airport services, and in view of this, improving the degree of punctuality was one of the principal objectives of Flughafen Zürich AG in 2005.

The various measures soon began to take effect: in the course of the year, Zurich Airport climbed up the punctuality ladder of the 27 leading airports of Europe from 26th place in the first quarter to 9th place in the third quarter.

This remarkable improvement is attributable to a stringent punctuality management programme by means of which Zurich Airport was able to significantly improve its degree of punctuality despite a severe winter and the reorganisation of landing and take-off routes in April 2005.

At Zurich Airport, it is not only the punctuality of flights that is monitored, but also passenger waiting times.

The amount of time passengers have to wait due to delays is measured in hours. Zurich Airport has set itself the goal of playing an exemplary role by introducing improvements in this area, and as a result of its initial measures, it has already succeeded in reducing the total amount of time passengers have to wait due to delays by more than 160,000 hours.

Zurich Airport wants to be a pioneer in the area of punctuality management. With its "airport steering" concept, it has brought together the main service providers at the airport under one roof and thus greatly streamlined communication as well as decision-making processes. An airport steering program ("Zeus") was specially developed for Flughafen Zürich AG, which provides a platform and an electronic data basis for it to work closely together with the main service providers at the airport.

New services for passengers

New customs facilities were handed over for operation at the end of January 2005. A passageway now connects Arrival 1 with Arrival 2 and offers passengers complete freedom with respect to choice of car parks at the airport and direct access to the Swiss arrivals lounge in Arrival 1.

Then in September 2005, the new baggage claim display was put into operation, which tells arriving passengers approximately how long they will have to wait until the luggage from their aircraft is offloaded onto the carousel. According to a study carried out by the Association of European Airlines (AEA), Zurich is the European hub with the lowest number of baggage losses.

Alternative flight path along Switzerland's northern border

In order to at least partially ease the burden on the most densely populated areas, Flughafen Zürich AG submitted a petition to the Swiss Federal Office for Civil Aviation (FOCA) on 31 December 2004 for approval of an alternative flight path along Switzerland's northern border with visual approach. The goal here is to reduce the number of approaches from the south between 6 a.m. and 7 a.m. Then at the beginning of March 2005, Flughafen Zürich AG provided the FOCA with the required safety assessment that was prepared under the leadership of Skyguide. The FOCA examined the submitted documentation and subsequently carried out test flights, and in December 2005 it announced its findings, namely that the flight path was demanding but would not pose problems for pilots. At the same time, the FOCA stipulated a number of modifications to the approach procedure. Flughafen Zürich AG is now examining these required modifications and revising the relevant application documents, and has asked the authorities to treat its application as a matter of urgency.

More stringent security measures

In order for Zurich Airport to meet the new EU requirements that are also binding for Switzerland, a variety of modifications had to be carried out concerning security measures. The required changes concern passengers as well as personnel at Zurich Airport. The many new requirements will give rise to a further increase in the already very high security costs.

Transfer of holding zones for landings, and change in flight procedure

On 14 April 2005 the intensified provisions concerning utilisation of airspace over Southern German territory entered into effect, as a result of which the existing holding zones had to be transferred from Germany to Switzerland and the associated modification of landing and take-off routes had to be implemented. At the end of 2003, Flughafen Zürich AG submitted its application to the Swiss Federal Office for Civil Aviation (FOCA) for approval of its temporary operating regulations. On 29 March 2005 the FOCA partially approved the application, and at the same time ruled that an amendment must be made to the structure of Swiss airspace. A number of objections against both rulings of the FOCA were subsequently submitted to the Appeals Commission ("INUM", Infrastructure and Environment). Flughafen Zürich AG also appealed against certain stipulations regarding the operating regulations, and this case is still pending.

Instrument landing system on runway 28

The installation of the instrument landing system on runway 28 was completed in 2005, but a lengthy test period, training of air traffic controllers, the adjustment of airspace parameters to the east of the airport and the modification of the approach route have to be completed before the new system can be put into operation. At present, the start-up of the ILS is blocked due to objections against the modification of the approach path.



Elke Köhler
Political issues manager

Development of non-aviation business



Main focus on consumers

A variety of internal and external market studies and research activities were carried out in order to determine the expectations of consumers. By combining a number of different information sources, it is possible to obtain a complete picture of the composition, requirements and attitudes of consumers. To accomplish this, Flughafen Zürich AG established a "Research and Competence Center" to function as a co-ordination centre for all market studies and research activities. As a service provider it secures the quality and continuity of information.

The findings thus obtained concerning the expectations of consumers – passengers and other visitors to the airport – form the basis for optimising the range of products to be offered to the various target groups. In this way we can constantly improve the attractiveness of locations, the quality of products and services, as well as the price/performance ratio so that the airport will be increasingly perceived as attractive and user-friendly.

Client focus and management of business relationships

Flughafen Zürich AG meets all its responsibilities at Zurich Airport, and is therefore carefully sensitising its business clients (airlines, licencees, tenants) and service providers (air traffic control, airport partners, suppliers) to its focus on consumers. Through a policy of open communication and by providing transparent information we can gain the confidence of our business partners and simultaneously promote a common understanding of the expectations of consumers.

Success through co-operation

Increasing pressure on prices, changing consumer requirements and an ever tougher and more global competitive environment are giving rise to a growing need for information and co-operation. Over the past few years, Flughafen Zurich AG has entered into partnerships in order to cut costs while simultaneously making Zurich Airport more widely known in an effective manner, beyond the bounds of its own sector and in new markets. These efforts have resulted in the establishment of a number of partnerships, e.g. with Switzerland Tourism, Zurich Tourism, Swiss International Air Lines, the Swiss Museum of Transport and the Swiss Tourism Association, as well as co-operation with various universities and business promotion organisations. The aim here is to jointly market Switzerland as a location and tourist destination, with Zurich Airport as an integrated transport hub and commercial centre.

Constant adaptation of products and services to meet clients' needs

An agreement has been concluded with Radisson/SAS concerning the operation of an airport hotel. The necessary building permit has been granted, and construction work is scheduled to commence in spring 2006. A number of new shops were opened during the year under review, and the range of restaurants was optimised following the opening of "Chalet Suisse", which offers full waiter service. An attractive range of shops and restaurants are also open on Sundays at Zurich Airport.

Zurich Airport as an events location

In addition to functioning as a transport hub, Zurich Airport is becoming an attractive commercial centre. Since August 2005, the airport has offered a number of other attractions in addition to the already extremely popular spectators' terrace and guided tours. For example, there is the new "Event Dock" (an area of 8,000 square metres at the former Dock B), plus an open-air site measuring 12,000 square metres. To get these new facilities off to a flying start, a wide-ranging series of special events were held in the period from August to October that were attended by approximately 60,000 people. The aim here is to generate additional frequencies for both the transport hub and the commercial centre by organising attractive events at Zurich Airport. One such event was the retrospective exhibition of works by Austrian artist Friedensreich Hundertwasser, which was held from November 2005 to February 2006 and attracted thousands of visitors. The facilities at Zurich Airport are also available for general meetings, trade fairs, congresses, etc., in addition to public events.

Communication



Communication

As airport operator, Flughafen Zürich AG plays a central role in the area of communication at the airport. Here, the target groups for communication activities are as broadly varied as the activities themselves.

Media and PR

In view of the need to take both economic and political aspects into account, a great deal of care and factual knowledge are required for the preparation and release of information to the media. Flughafen Zürich AG and Zurich Airport are frequently the focus of attention of both regional and national media, primarily because of the numerous political issues associated with the airport. Since its inception, Flughafen Zürich AG has published more than 400 media releases which it has also made available to the general public by posting them on the Internet. Last year alone we published around 80 media releases, held a dozen or so media conferences and background discussions, and arranged 10 visits to media directors. Every day we have to answer numerous media enquiries – sometimes as many as several dozen a day, depending on the nature of the event or its political significance.

“AIR” magazine

In August 2005, Flughafen Zürich AG launched “AIR”, a free quarterly magazine that focuses on developments in the areas of travel and lifestyle, and promotes events and activities both in Switzerland and elsewhere. The goal is to publish an issue every two months in an edition of approximately 200,000. “AIR” is the successor to “Unique!”, which was intended for local residents and focused on occurrences and developments relating to Zurich Airport. The information formerly provided by “Unique!” is now the responsibility of the Public Affairs & Environment division and is also made available to the public via the media and the Internet.

Noise management and protection of residents

Political debate repeatedly underscores the importance of effective noise management and suitable protection of residents. In order for Flughafen Zürich AG to be perceived in a positive light by the general public, it is essential to ensure that publicised information is transparent, comprehensible and reliable. The effectiveness of existing measures to protect residents became apparent following the transfer of holding zones from Southern German airspace to Swiss sovereign territory – a move that was decreed by the unilateral German ordinance. The temporary aircraft noise measurements, which form a meaningful basis for discussions with involved authorities and private

individuals, and the noise hotline that provides friendly, helpful and reliable information, are valuable tools that also help generate confidence. The number of deviations from prescribed flight paths has been minimised thanks to consistent monitoring. The existing flight-path monitoring and noise measurement system, which is to be replaced by a new system in 2006, is an important support tool for assessing the degree of noise exposure in the affected regions. As a result of the various measures implemented by Flughafen Zürich AG to protect residents, the number of noise-related complaints from the local population is beginning to decline.

Demand for the installation of noise-insulating windows within the scope of the ongoing “2010 sound insulation programme” is very high. Most of the insulation work in parts of the municipalities of Opfikon, Oberglatt, Bülach and Hochfelden was completed during the year under review.

Political issues as key factors

Flughafen Zürich AG focuses on political issues in line with the importance of Zurich Airport as an international hub, and maintains contacts with various interest groups from the general population, the public sector and trade and industry. Here its main objectives are to increase the level of acceptance for Zurich Airport as an important civil aviation infrastructure at the international, national, cantonal and municipal levels, and to underscore the important role the airport plays for Switzerland's economy.

It attaches a great deal of importance to maintaining and expanding its existing relationships with trade and industry associations and organisations. In view of the airport's proximity to the southern region of Baden-Württemberg, it also involves German partners and organisations in the political opinion-forming process. Furthermore, Flughafen Zürich AG has carefully examined the general conditions concerning membership of the European Star Alliance hub, and identified deficits relating to the conditions for Zurich Airport. It wants to enter into constructive political dialogue in order to help place Zurich Airport on an equal footing with its international competitors. The priorities here are to secure the demand-oriented development of the airport, reduce the existing restrictions in terms of capacity, and effect a reorganisation of the responsibility for costs relating to security and noise management.

International activities



Markets

The focus of the international activities of Flughafen Zürich AG is on India and South America. These two markets offer good opportunities, and Flughafen Zürich AG is already actively involved in both in the form of ongoing projects and co-operation with strong partners.

Bangalore (India)

In July 2005, construction work commenced on the new international airport in Bangalore (India), after the bank providing the financing had declared on 27 June 2005 that all its requirements had been met for granting the necessary loans (financial close).

Flughafen Zürich AG holds a 17 percent stake (16 million Swiss francs) in Bangalore International Airport Ltd. (BIAL), which managed the project and will be building and operating the airport. BIAL is a public/private partnership in which private investors hold a 74 percent stake, and the Indian government and Karnataka State each hold a 13 percent stake. This is the first project of its kind in India. The biggest shareholder is Siemens (40 percent), and Indian construction company Larsen & Toubro Ltd. holds a 17 percent stake.

Flughafen Zürich AG is assisting BIAL with the planning and construction of the airport, as well as with its later operation, on the basis of an operating, management and service agreement that has been concluded for a period of ten years.

Air travel in India has grown unexpectedly rapidly over the past few years following the liberalisation of the civil aviation sector. This sharp increase in demand, together with the lengthy delay in commencing construction work, means that the new airport will already be too small for the anticipated 4.5 million passengers when it is handed over for operation. In view of this, intensive efforts are now being made to examine the possibility of expanding the airport's capacity to 6 to 7 million passengers at the same time as construction of the basic project is carried out.

Chile

In Chile, Flughafen Zürich AG holds an interest in the licences for terminal and landside utilisation at three small airports together with its Chilean partner, Administración de Concesiones IDC S.A. (IDC). 2005 was a very good year for the Chilean economy (6.3 percent growth). The airport with the highest passenger volume is located approximately 1,500 kilometres south of the country's capital, Santiago de Chile, in Puerto Montt – the gateway to the Chilean part of Patagonia. Here the current licence is due to expire in 2008. The airport with the lowest passenger volume is located in La Serena, which lies approximately 600 kilometres north of Santiago de Chile (licence valid until 2010). This airport mainly provides services for tourists travelling between

Argentina and Chile. Calama is located approximately 1,200 kilometres from Santiago de Chile, in a desert region at an altitude of 2,600 metres above sea level, and is thus the most northerly of the three airports. The licence is due to expire in 2010. Negotiations concerning extensions of the respective licences are currently in progress for all three airports.

Venezuela

In 2004, the consortium comprising Flughafen Zürich AG and IDC concluded a strategic alliance agreement with the government of the province of Nueva Esparta concerning expansion and modernisation projects and the operation of the international airport on Isla de Margarita. Flughafen Zürich AG holds a 49.5 percent stake in the consortium. During the contractual period of 20 years, the consortium is obliged to invest a total of 34 million US dollars in the expansion and modernisation of the airport infrastructure. The aim here is to develop Isla de Margarita as a tourist destination and provide both tourists and inhabitants of the island with an airport that meets international standards.

In the meantime the consortium has reported various successes with respect to operational aspects as well as construction activities. Within a very short time, the airport has become profitable again after several decades of losses, and in addition a number of construction measures have given rise to improvements in terms of both quality and security.

The biggest challenge to be overcome on Isla de Margarita in addition to ensuring the efficient operation of the airport while simultaneously renovating the terminal concerns collaboration with the new government that took office in autumn 2004. Last summer, the governor declared the strategic alliance agreement invalid for reasons that are incomprehensible to the consortium. The Administrative High Court of Venezuela fully sided with the argumentation put forward by the consortium and formally declared the agreement valid again. At the same time, the court expressly prohibited the governor from questioning the validity of the agreement. Despite this ruling by the Administrative High Court, in December 2005 the governor intervened again, and the consortium immediately instigated legal proceedings to protect its rights. The associated proceedings are still pending. If necessary we intend to take the matter to the relevant international courts in order to protect our rights.

Projects in progress

In addition to the commitments described above, Flughafen Zürich AG is currently considering projects in Honduras, India and Colombia.

Corporate governance



Information concerning corporate governance

in accordance with the Corporate Governance Guidelines of SWX Swiss Exchange dated 17 April 2002

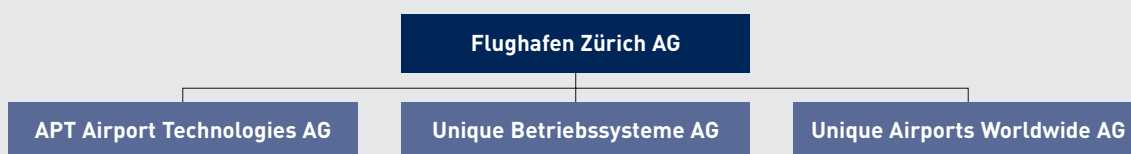
Group and capital structures

Group structure

For details concerning the group operational structure, please refer to the section on segment reporting (see "Financial report", "Consolidated financial statements according to IFRS", "Accounting policies", "Segment reporting").

Apart from Flughafen Zürich AG, Kloten (securities no. 1,056,796), which was listed on the SWX with a market capitalisation of 1,158,811,570 Swiss francs as of balance sheet date, the consolidated group does not comprise any other listed companies, but it does include the following unlisted companies:

Name	Domicile	Share capital	Holding
APT Airport Technologies AG	Kloten	CHF 1,800,000	100% Flughafen Zürich AG
Unique Betriebssysteme AG	Kloten	CHF 100,000	100% Flughafen Zürich AG
Unique Airports Worldwide AG	Kloten	CHF 100,000	100% Flughafen Zürich AG



Capital structure

The group's ordinary share capital amounts to 245,615,000 Swiss francs, which is divided into 4,912,300 fully paid-up registered shares with a nominal value of 50 Swiss francs each. All shares have the same dividend entitlements and voting rights (as long as they have been entered in the share register).

No approved or conditional capital, no participation or dividend right certificates and no outstanding convertible bonds or options existed as of balance sheet date.

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

(CHF thousand)	31.12.2005	31.12.2004	31.12.2003
Share capital	245,615	245,615	245,615
Legal reserves			
– Premium	269,254	269,254	269,254
– General reserves	19,060	19,060	19,060
– Reserves for own shares	1,735	2,328	24,999
Other reserves	79,123	78,540	55,859
Available earnings			
– Profit/(loss) brought forward	13,392	(7,687)	(17,605)
– Net profit	12,320	21,079	9,918
Total equity	640,499	628,189	607,100

For information concerning distribution of shares (no debentures are distributed), please refer to "Financial report", "Consolidated financial statements according to IFRS", note 2, "Personnel expenses".

Shareholder structure and voting rights

Major shareholders

As of balance sheet date (31 December 2005), the Canton of Zurich held 45.6 percent and the City of Zurich held 5.38 percent of the company's shares/voting rights. There were no other shareholders whose holdings exceeded 5 percent of the total number of shares with voting rights. There are no cross-holdings 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 should be exceeded, it shall be raised to 49 percent.

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 and nominee registrations

Registration with voting rights is limited to 5 percent 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 percent) and the City of Zurich (limit = 10 percent). Other exceptions may be granted by the Board of Directors, 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 year under review.

The above limitations with respect to transferability are stipulated in the company's Articles of Incorporation, which may be amended by resolution of the General Meeting of Shareholders by a two-thirds majority of represented votes. Nominees are exclusively registered as shareholders without voting rights.

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 inclusion of items on the agenda, no statutory regulations exist that deviate from the relevant legal provisions.

Deadlines and cut-off dates for including items on the agenda are also not specified in the Articles of Incorporation.

In accordance with the Articles of Incorporation, all shareholders are entitled to appoint another registered shareholder to act on their behalf at the General Meeting of Shareholders upon presentation of a written power of attorney.

A qualified majority in accordance with Article 704 of the Swiss Code of Obligations is also 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 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, though 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 seventy.

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.

Members

Andreas Schmid

Swiss citizen; born in 1957; MA (Law); member of the Mövenpick Executive Board of Management from 1993 to 1997, then CEO of Jacobs AG (until 2000) and Barry Callebaut AG (until mid-2002); also Chairman of the Board of Directors of Barry Callebaut AG from 1999 to 8 December 2005; Vice Chairman of the Board of Directors of Barry Callebaut AG since 9 December 2005. Member of the Board of Directors of Unique since the 2000 General Meeting of Shareholders. Other activities and commitments: Chairman of the Board of Directors of Kuoni Reisen Holding AG; member of the Advisory Board of Credit Suisse AG.

Lukas Briner

Swiss citizen; born in 1947; PhD (Law); clerk of the court in Uster (until 1979), then legal consultant, deputy director and (since 2001) director of the Zurich Chamber of Commerce. Appointed to the Board of Directors in May 2005. Other activities and commitments: Member of the Board of Directors of Zürcher Oberland Medien AG; member of the Board of the "Greater Zurich Area" Foundation.

Martin Candrian

Swiss citizen; born in 1945; since 1979, lessee of the "Bahnhofbuffet" Zurich, Chairman of the Board of Directors and Chief Executive Officer of Candrian Catering AG, Zurich. Elected to the Board of Directors in 2004. Other activities and commitments: Chairman of the Board of Directors of Candrian Seafood AG and AG Suvretta House St. Moritz; member of the Board of Directors of Dolder Hotel AG; member of the Advisory Board of Credit Suisse AG.

Dorothee Fierz

Swiss citizen; born in 1947; certified teacher; full-time politician since 1991, member of the government of the Canton of Zurich since 1999. Appointed to the Board of Directors in 2000, and stepped down in June 2005. Other activities and commitments: Member of the Board of Directors of Axpo, EKZ and NOK.

Rita Fuhrer

Swiss citizen; born in 1953; member of the government of the Canton of Zurich since 1995. Appointed to the Board of Directors in 2004. Other activities and commitments: Member of the Board of Directors of Axpo and EKZ; chairwoman of the "Greater Zurich Area" Foundation.

Christian Huber

Swiss citizen; born in 1944; PhD (Law); 1981 to 1999, positions as public prosecutor, chief justice and presiding judge of the jury court; member of the government of the Canton of Zurich from 1999 to 2005. Appointed to the Board of Directors in 2000, and stepped down in April 2005. Other activities and commitments: Member of the Board of Directors of Vereinigte Schweizerische Rheinsalinen AG.

Elmar Ledergerber

Swiss citizen; born in 1944; PhD (Economics); member of the Zurich City Council since 1998, Mayor of Zurich since 2002. Member of the Board of Directors since 1998 (originally appointed to the Board of Directors of Flughafen Immobilien Gesellschaft as part of the statutory entitlement of the City of Zurich; elected by the General Meeting of Shareholders in 2000).

Kaspar Schiller

Swiss citizen; born in 1947; PhD (Law); attorney-at-law; since 1978, partner in the legal practice of Schiller Denzler Dubs, Winterthur. Elected to the Board of Directors in 2004.

Martin Wetter

Swiss citizen; born in 1946; PhD (Law); with Credit Suisse Group from 1973 to 2005 (focus on commercial and financial participations divisions). Member of the Board of Directors from 1993 (former Flughafen Immobilien Gesellschaft) to 2004; then in 2005, appointed to the Board of Directors by the Canton of Zurich. Other activities and commitments: Chairman of the Board of Directors of Zürcher Freilager AG.

Eduard Witta

Swiss citizen; born in 1937; MA (Civil Engineering), Federal Institute of Technology, Zurich; own engineering business since 1969. Member of the Board of Directors since the 1982 General Meeting of Shareholders (former Flughafen Immobilien Gesellschaft).

None of the members of the Board of Directors hold executive positions at Flughafen Zürich AG, and none were members 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.

The following business relationships between members of the Board of Directors or the entities they represent and Flughafen Zürich AG are deemed significant and thus worthy of mention:

- Within the scope of a framework credit

agreement, the Canton of Zurich – in the government of which member of the Board of Directors Rita Fuhrer holds a seat – has granted Flughafen Zürich AG a credit facility with a duration of 10 years. The maximum available amount of this credit facility corresponds to the total investments in engineering structures relating to expansion stage 5. Since the estimated total costs of these investments were reduced further, the credit facility limit fell from 826 million Swiss francs to 774 million. 300 million Swiss francs were drawn as of 31 December 2005. No cross-ties exist in the form of mutual membership of boards of directors of listed companies.

Internal organisation

Chairman of the Board of Directors:
Andreas Schmid
Vice Chairman: Lukas Briner

The Board of Directors has formed the following committees:

Audit & Finance Committee

Members: Martin Candrian (Chairman), Rita Fuhrer, Elmar Ledergerber, Andreas Schmid, Martin Wetter. Duties: This committee is responsible for close supervision of the annual accounts and monitoring of compliance with the accounting policies, evaluation of financial reporting and auditing activities, assessment of findings obtained from audits and recommendations by the auditors, definition of the group's financing policy and examining business transactions of special importance.

Nomination & Compensation Committee

Members: Kaspar Schiller (Chairman), Lukas Briner, Andreas Schmid, Eduard Witta. Duties: This committee deals with all issues relating to nomination and/or removal of members of the executive management of the group, including their compensation and questions relating to succession planning. It defines 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.

The executive bodies of Flughafen Zürich AG convene meetings as required. For the Board of Directors this means approximately ten meetings a year with an average duration of approximately six hours, while the committees hold meetings three to four times a year with an average duration of between two and four hours. The committees pass

on recommendations and submit proposals to the Board of Directors, and order clarifications to be carried out by internal or external offices. The CEO, Airfield Manager, CFO and General Secretary are regularly invited to attend meetings of the Board of Directors, while the CEO, CFO, head of Finance, Risk and Supply Management and the General Secretary are invited to attend meetings of the Audit & Finance Committee, and the CEO, the head of HRM and the General Secretary are invited to attend meetings of the Nomination & Compensation Committee. Other members of the Management Board or representatives of the auditors are invited to attend meetings dealing with pertinent topics.

Competence regulations

Based on the Articles of Incorporation, the Board of Directors has issued a set of organisation regulations in accordance with the provisions of Article 216b 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, but has otherwise entrusted the Management Board with the general management of the company.

Information and controlling tools

The Management Board reports to the Board of Directors by means of monthly updates via the Management Information System. This tool encompasses traffic developments, marketing activities, non-aviation business, personnel controlling, balance sheet management, project information and participation management. Comprehensive financial and business reports are also prepared on a quarterly basis, and the Board of Directors is informed about anticipated developments in the form of rolling long-term planning. In close collaboration with the Audit & Finance Committee, and, as appropriate, with Internal Auditing, group auditors KPMG Fides Peat examined various key processes in the course of an interim review. In the year under review, within the scope of internal auditing, which functions as an independent instrument of the Board of Directors and Audit & Finance Committee for performing its duty of overall supervision, processes such as the award of mandates and cost controlling of buildings and engineering structures resulting from expansion stage 5, administration of freight and hangar rental contracts, and the new billing tool for airport charges, etc., were examined. The internal auditor reports directly to the chairman of the Audit & Finance Committee.

Management Board Members

Josef Felder

Swiss citizen; born in 1961; CEO.
Qualified accountant/controller; joined Crossair AG in 1989, where he was CFO until 1993, head of Marketing until 1996 and head of Product Management until 1998; joined Flughafen Zürich AG – at that time, Flughafen Immobilien Gesellschaft – in November 1998.

Roland Bentele

Swiss citizen; born in 1961; head of Human Resources.
PhD (Law); 1993 to 1998, legal functions in law courts, law firms and other companies; joined SAirGroup in 1997; transferred to Swissair HR division in 1998, then joined its management board; 2002 to 2004, head of HR at Hilti; joined Flughafen Zürich AG in June 2004.

Peter Eriksson

Swedish citizen; born in 1955; head of Marketing & Real Estate.
Business and management studies, specialising in commerce and retail; 1976 to 2001, various management positions in the area of marketing and sales at Ikea, Tip Top AG, Jelmoli AG and The Nuance Group AG; joined Flughafen Zürich AG in April 2002.

Rainer Hildebrand

Swiss citizen; born in 1954; head of Operations; Airfield Manager.
Qualified airline pilot (SLS); joined Swissair as pilot in 1978 (DC9, MD80, MD11, A320, A330); 1999, chief pilot of entire Swissair fleet; joined Flughafen Zürich AG in April 2002.

Beat Spalinger

Swiss citizen; born in 1958; head of Finance & Services.
MA (Business Economics), School of Economics and Business Administration; 1983 to 1986, CFO of a general contracting group; 1986 to 1999, partner at KPMG Fides (head of Corporate Finance); joined Flughafen Zürich AG (at that time, Flughafen Immobilien Gesellschaft) in autumn 1999.

Hans Peter Staffelbach

Swiss citizen; born in 1941; head of Public Affairs & Environment (from 2000 to April 2005).
MA (Engineering), Federal Institute of Technology, Zurich; 1968 to 1981, various positions at IBM; 1981 to 1985, managing director of Heliswiss; 1985 to 2000, managing director of Zurich Airport.

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

Remuneration, participation and loans

Specification and scope of remuneration
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 by the Board of Directors as proposed by the Nomination & Compensation Committee. There are no participation programmes for members of the Board of Directors. The total remuneration paid to members of the Board of Directors during the year under review was 595,000 Swiss francs (2004: 605,600 Swiss francs).

The highest amount paid to a member of the Board of Directors during the year under review was 128,100 Swiss francs (2004: 134,400 Swiss francs). Remuneration of members of the Management Board is based on individual employment contracts and comprises a fixed salary and a variable performance component that mostly takes the form of shares in the company. The amounts concerned are specified by the Nomination & Compensation Committee. The total remuneration paid to members of the Management Board during the year under review was 2,264,800 Swiss francs (2004: 2,647,200 Swiss francs).

During the year under review, no severance payments were made to persons who terminated their executive function, and no compensation was paid to resigning members of the Board of Directors or Management Board.

Share allocation and holdings

For the year under review, members of the Management Board are entitled to shares equivalent to 299,000 Swiss francs. However, the exact number of shares cannot be calculated since the number of shares to be distributed depends on the share price at grant date. If the shares had been granted as of the end of the year, a total of 3,565 would have been distributed (see "Financial report", "Notes to consolidated financial statements", note 2, "Personnel expenses"). No company shares were allocated to members of the Board of Directors during the year under review.

As of 31 December 2005, the number of company shares held by members of the Management Board and associated parties was 29,202.

As of 31 December 2005, the number of company shares held by members of the Board of Directors and associated parties was 349, not including the holdings of the Canton and the City of Zurich as cited under "Major shareholders".

Other fees and remuneration

MWV Bauingenieure AG, whose co-owner Eduard Witta is a member of the Board of Directors, received payments totalling 61,700 Swiss francs for engineering work carried out in association with the airport multi-storey car parks (2004: 86,500 Swiss francs). Otherwise no member of the Board of Directors or Management Board received any remuneration during the year under review for services provided to Flughafen Zürich AG or any of its group companies, the total of which would equal or exceed half the normal remuneration of the person concerned.

Loans to executive personnel

There are no outstanding loans granted by the company to members of the Board of Directors or Management Board.

Auditors

The audit mandate is awarded each year by the General Meeting of Shareholders. The current auditors first assumed their mandate of independent accounting expert prior to 1992 (at that time for Flughafen Immobilien Gesellschaft), i.e. while the former company law was still in effect. The current auditor in charge has been responsible for this mandate since 2000.

The fee charged by the auditors for the year under review amounted to 404,000 Swiss francs (2004: 325,240 Swiss francs). The auditors also charged a total of 14,500 Swiss francs (2004: 89,900 Swiss francs) for services beyond the scope of the audit mandate.

The Audit & Finance Committee is responsible for supervising and controlling external audits.

Information policy

Shareholders regularly receive information about the company and its activities in the Interim Report and Annual Report, and ongoing developments are reported on in the form of news flashes.

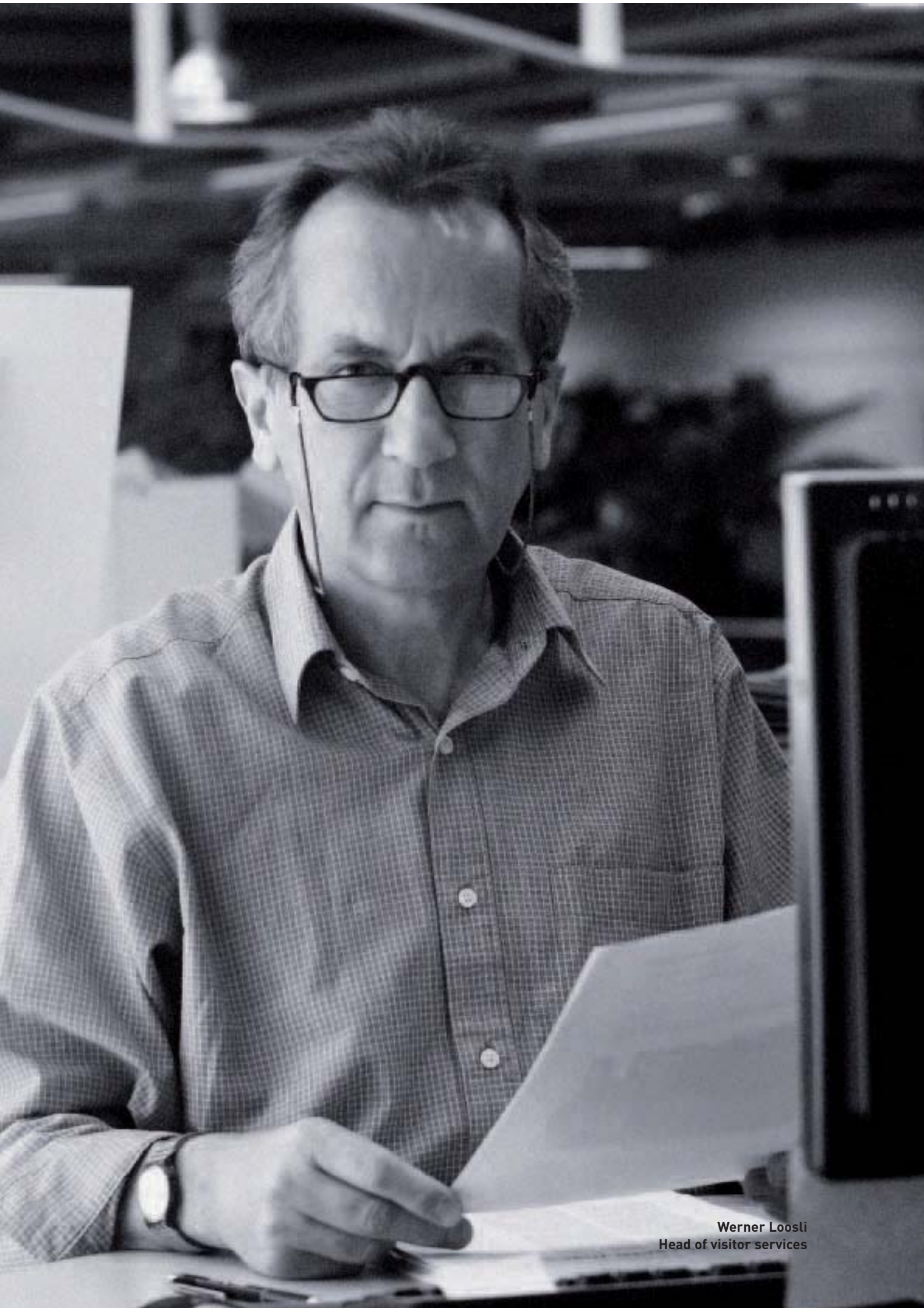
Furthermore, permanent information of a general nature may be viewed on the Investor Relations page of our web site (www.unique.ch).

Contacts:

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Investor Relations:

Daniel Schmucki,
e-mail: daniel.schmucki@unique.ch

Corporate Communications:
Jörn Wagenbach,
e-mail: joern.wagenbach@unique.ch



Werner Loosli
Head of visitor services

Risk management



Comprehensive risk management

Flughafen Zürich AG has set itself the strategic goal of formulating a comprehensive risk management system, and is committed to carrying out uniform and systematic risk management in the future. For Flughafen Zürich AG, risk management means approaching and managing risk in a clearly defined and disciplined manner, thereby securing transparency with respect to all risks associated with its business activities, and constantly improving and monitoring the group's risk situation.

Unique risk management system

Flughafen Zürich AG has its own risk management system which serves as one of its corporate governance tools. It came into effect on 1 December 2000 and functions as a valuable practical tool for managing corporate risk. It comprises the following components:

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

Risk management organisation forms the backbone of this system and it encompasses the following roles and competencies:

- Board of Directors/Management Board and Chief Risk Officer: The Board of Directors and Management Board bear the overall responsibility under company law for securing the group's existence and profitability. The Board of Directors is responsible for the overall supervision of risk management, and it fulfils this duty with the aid of internal audits. The Chief Financial Officer is simultaneously the Management Board's risk management officer (Chief Risk Officer).
- Line management (divisions and corporate centres): Line units and individual line managers bear the responsibility for risks and they manage these risks within the scope of the risk management system (risk owner concept).
- Risk Management Centre: The Risk Management Centre is headed by the Corporate Risk Manager. It supports line management in all matters relating to risk management and is responsible for the operation and further development of the risk management system.

- Specialised units: Specialised units perform specific risk-related cross-section functions within the group (e.g. cash management, operational safety, occupational safety and health, information security, fire prevention, contingency planning) co-ordinated through the Risk Management Centre.

Current risk situation

The current risk situation is primarily characterised by the following factors:

– Hub carrier

The national airline, Swiss, is the main client of Flughafen Zürich AG. It accounts for approximately 48 percent (2004: 48 percent) of Zurich Airport's flight movements and 50 percent (2004: 48 percent) of its passenger volume. Approximately 12 percent (2004: 12 percent) of our total turnover (excluding passenger fees) is realised directly through this airline. In the same way as any other hub airport, Flughafen Zurich AG greatly depends on the operational and financial success of its hub carrier.

– Legal issues

Various internal and external political restrictions could mean that Flughafen Zürich AG will not be able to fully utilise the opportunities it has created for its business development, primarily through expansion stage 5, and instead may give rise to additional investments and costs. These include:

Initiative in the Canton of Zurich calling for restrictions on flight operations ("Plafonierungsinitiative")

This people's initiative was formally submitted in the Canton of Zurich and has been declared valid.

It petitions the government of the Canton of Zurich to take all steps within the scope of its powers to limit the number of noise-relevant flight movements at Zurich Airport to 250,000 p.a., and to extend the night-time curfew to at least nine hours. Voting on this initiative has to take place not later than January 2008.

The government of the Canton of Zurich has put forward a counter-proposal that would provide Zurich Airport with scope for development. It is not possible to provide a conclusive assessment of the counter-proposal here since, at the time of writing, certain details still needed to be clarified.

Restarted SIL process (Civil Aviation Infrastructure Plan) as the basis for definitive operating regulations

Flughafen Zürich AG views this process as an opportunity to establish the basis for determining the future definitive operating regulations, and thus providing both the airport and the population of the region with legal and planning security. However, it is also possible that decisions may be taken in the course of this process that could prevent Flughafen Zürich AG from utilising the available infrastructure to the full or result in additional costs for the group.

Rulings by the supervisory authorities relating to landing and take-off procedures

Rulings of this nature, which for example might be made on the basis of safety considerations, could give rise to further capacity restrictions and thus have an impact on business development.

Possible additional intensification of the unilateral ordinance issued by Germany

If the unilateral ordinance issued by Germany is intensified still further, this could give rise to additional capacity restrictions and thus have a significant impact on business development.

– Noise compensation and sound insulation measures

In accordance with Articles 679 and 684 of the Swiss Civil Code, in conjunction with Article 36a of the Civil Aviation Act and the provisions of the Federal Expropriation Act, Flughafen Zürich AG has to bear the costs associated with formal expropriations and, in accordance with Articles 20 ff of the Environmental Protection Act, it has to bear the costs relating to sound insulation measures. According to existing legal doctrine, one of the prerequisites for any noise-related claims is that the noise thresholds for commercial airports effective since 1 June 2001 are exceeded. The operating licence and environmental protection laws form the basis for refinancing the costs arising in association with such claims via civil aviation charges (noise charges and special surcharge on passenger charges).

Sound insulation measures

There is neither an approved sound insulation concept nor a valid report on noise levels for Zurich Airport that would form the legal basis concerning the nature and extent of sound insulation measures in the airport's vicinity. However, the Federal Tribunal has ruled that this should not prevent the holder of the operating licence from initiating the implementation of such measures in those areas in which they are not the subject of dispute. The extent and realisation of such measures may provisionally be defined by Flughafen Zürich AG itself, or will depend on the future definitive operating regulations. To date, Flughafen Zürich AG has spent a total of around 59 million Swiss francs on sound insulation measures. On the basis of the temporary operating regulations submitted on 31 December 2003, the remaining costs associated with sound insulation measures (insulation in other areas, remuneration of costs to house owners who have installed sound insulation windows at their own expense) will presumably be around 160 million Swiss francs.

Formal expropriations

As of balance sheet date, no final rulings had been pronounced on compensation claims arising from formal expropriations on the basis of excessive aircraft noise or direct overflights, though a number of cases are pending. Initial conciliation proceedings were held in November 2005 concerning 18 "pilot" cases in the municipality of Opfikon, but no agreements were reached. In these cases, valuation hearings are to take place in the middle of 2006, and this means that first-instance rulings are to be expected by the end of 2006. It is difficult for the Management Board to reliably estimate the costs that will result from these proceedings at the present time, since:

- (I) there are gaps in the relevant legislation
- (II) there is a lack of legal practice relating to many fundamental issues, and existing rulings are sometimes conflicting
- (III) the influence of political debate cannot be underestimated
- (IV) the costs will be influenced by the definitive operating regulations, which are still awaiting approval.

The Management Board believes that it will be able to reliably estimate the anticipated costs after the Federal Tribunal (as financial instance) has ruled on the fundamental issues raised in the Opfikon pilot cases. A ruling is not expected before 2007. Flughafen Zürich AG has made numerous estimates for internal scenarios concerning the assessment of risks and the definition of measures aimed at reducing these risks. In view of the uncertain situation, a very large number of different scenarios are conceivable, but none of these have a significant mathematical probability.

From today's perspective, the previously disclosed potential costs (in the form of a risk assessment) associated with formal expropriations amounting to between 800 million and 1.2 billion Swiss francs can be regarded as a cautious and conservative estimate. This applies especially in view of the partial ruling pronounced by the Federal Tribunal in July 2004 in association with the lawsuits from the municipality of Opfikon, and the course of the Opfikon pilot cases to date. However, the effective costs could deviate significantly from the estimated costs in either direction.

Flughafen Zürich AG assumes that these costs would have to be paid over a period of several years. This is assuming that they should even reach the estimated level.

Refinancing and competitiveness

The refinancing of costs arising in association with aircraft noise is to be carried out via special noise-related revenue. The most important source of revenue for refinancing is the noise-related passenger charge of 5 Swiss francs. Based on current estimates (see above), this would have to be raised to around 10 Swiss francs in the medium term in order to cover the anticipated costs,

Reporting noise-related data in the consolidated financial statements according to International Financial Accounting Standards (IFRS)

The revenue from noise charges collected on a "user pays" basis, the costs associated with sound insulation measures and operating costs relating to aircraft noise are recognised in the income statement.

Sound insulation measures

The costs for sound insulation measures are recognised as a provision as soon as they can be reliably estimated and if they are undisputed or if the company has assumed a constructive obligation.

Formal expropriations

With the award of the operating licence, Flughafen Zürich AG was also granted a right of formal expropriation 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. This right is capitalised as an intangible asset. Capitalisation takes place at the time at which the probable total costs 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 capitalisation may vary from region to region around the airport. At the same time as an intangible asset is recognised at present value of the expected future payments, an equal amount is recognised as a provision. Any future changes in the carrying amount of the provision will be accounted for as an adjustment to the intangible asset. The intangible asset is amortised using the straight-line method over the remaining duration of the operating licence (i.e. until 2051). Flughafen Zürich AG assumes that no final-instance court ruling will be made during the 2006 financial year that would lead to recognition of assets or liabilities.

Reporting noise data in the financial statements according to the provisions of the Swiss Code of Obligations (OR)

Costs associated with formal expropriations qualify as an intangible asset in accordance with the Swiss Code of Obligations. They are capitalised not later than the time at which the counterparty has attained an assertable claim. An equal amount is also recognised as a provision at the same time. Adequate provisions are recognised for liabilities arising from sound insulation measures.

Full amortisation of capitalised costs for formal expropriations is based on the consolidated financial statements at least. Beyond this, special write-offs are carried out from case to case to the extent to which the noise charges recognised as an expense exceed the costs for sound insulation measures and other operating costs in a given period. Any balance of revenue from noise charges after deduction of noise-related costs (sound insulation measures, operating costs, financing costs) is transferred to provisions for aircraft noise.

Risks for Flughafen Zürich AG in association with aircraft noise

As already noted, Flughafen Zürich AG has the right to refinance any costs that may arise in association with aircraft noise through charges. This means that our ability to refinance such costs is secured over the long term. However, in the medium term, two risks have to be taken into account:

The risk of a financing gap

If the noise-related costs should arise sooner than anticipated by Flughafen Zürich AG, or prove to be higher than expected, this could result in a financing gap that Flughafen Zürich AG might not be able to cover with available credit limits. Flughafen Zürich AG therefore intends to enter into additional noise-related financing arrangements in order to eliminate this risk.

The risk of impacts of noise-related costs on the consolidated financial statements (according to IFRS) and the financial statements according to the provisions of the Code of Obligations (OR)

The consolidated financial statements (IFRS) and the financial statements according to the provisions of the Code of Obligations could be negatively influenced depending on the amount of effective costs and any future changes in applicable accounting standards. With respect to the consolidated financial statements, any negative influences could affect standard guarantees and covenants in regard of outstanding financial liabilities.

Events occurring after the balance sheet date concerning risks associated with aircraft noise

On 8 March 2006, Flughafen Zürich AG and the Canton of Zurich signed a supplement agreement to the merger agreement dated 14 December 1999

regulating the sustainable reduction and limitation of risks to Flughafen Zürich AG associated with aircraft noise. The main content of this supplementary agreement is as follows:

1. Flughafen Zürich AG is obliged to implement measures by means of which the ability to tolerate balance sheet and financing risks associated with aircraft noise up to approximately 1.1 billion Swiss francs can be assured. For this purpose, on 11 April 2006 the Board of Directors is to ask the General Meeting of Shareholders to approve a capital increase with a market value of approximately 300 million Swiss francs in order to strengthen the company's equity. Since Flughafen Zürich AG will not need to use these funds in the immediate future – an effective outflow of funds due to formal expropriations is not expected before the end of 2007 – the outstanding debt owed to the Canton of Zurich amounting to 300 million Swiss francs can be paid back prematurely and without any additional costs. The repayment of this loan will have a positive influence on the income statement to the value of around 15 million Swiss francs per annum. Furthermore, Flughafen Zürich AG intends to obtain a credit limit of 200 million Swiss francs to cover any financing gap that may arise.
2. In the event that, upon payment of the first formal expropriations, the risk should arise that the total expected costs associated with aircraft noise (formal expropriations, costs for sound insulation and all related operating costs) may exceed 1.1 billion Swiss francs (threshold), the Canton of Zurich would assume the prefinancing of all "old" noise-related liabilities. "Old" noise-related liabilities are liabilities that came into being prior to June 2001, up to which date the Canton of Zurich was holder of the operating licence. As before, the Canton of Zurich is jointly liable for such claims in an external capacity, while in an internal capacity, Flughafen Zürich AG assumed responsibility for these liabilities in the merger agreement dated 14 December 1999. With the newly agreed solution, this general

obligation resulting from the merger agreement has been more precisely defined and regulated in greater detail. For the financing of the costs arising from its adoption of responsibility, the Canton of Zurich is to receive a portion of the revenue from noise-related charges in accordance with a specified key. As a result of the adoption of "old" noise-related liabilities by the Canton of Zurich, the requirement for Flughafen Zürich AG to recognise a provision for compensation no longer applies, and the costs will therefore no longer be capitalised.

3. In the event that, in the course of the legal proceedings, the risk cited in point 2 should fall below the level of 1.1 billion Swiss francs (threshold), Flughafen Zürich AG will assume the remaining "old" noise-related liabilities and associated charges.

The objective of this agreement is therefore to limit the overall noise-related risk of Flughafen Zürich AG to "new" noise-related liabilities. The planned capital increase and provision of a special credit limit will create the accounting and financial prerequisites for bearing any noise-related liabilities up to 1.1 billion Swiss francs.

The entry into effect of the supplementary agreement with the Canton of Zurich is subject to the approval of the proposed capital increase by the General Meeting of Shareholders.

– Falling demand

Experience over the past few years has shown that civil aviation is a highly volatile business that reacts sensitively to external occurrences such as acts of terrorism and epidemics (SARS, bird flu). This means that such events could lead to a fall in demand at Zurich Airport.

– Refund of Swissair payment effected on 4 October 2001 (demand by creditors' trustee)

On 4 October 2001, Swissair Schweizerische Luftverkehr Aktiengesellschaft (Swissair) paid the amount of 21.8 million Swiss francs to Flughafen Zürich AG in settlement of airport charges for the month of July 2001. On 2 October 2001, Swissair had already ceased operation due to lack of liquidity. Swissair then applied for deferment of bankruptcy, which was granted on 5 October 2001. On 23 May 2005, the liquidator of Swissair Schweizerische Luftverkehr AG in Nachlassliquidation contested the cited payment and demanded that it be refunded, since in his view, Flughafen Zürich AG had been given preference over other creditors. Flughafen Zürich AG regards this payment as lawful. On 17 November 2005, a lawsuit was filed within the stated deadline with the commercial court by Swissair, represented by its liquidator. A ruling by the commercial court is expected in the course of 2006.

Significant events during 2005



- 13 January
To protect itself against obstacles to landings on runway 28, Flughafen Zürich AG submits an application to the Federal Office for Civil Aviation for the specification of a project zone.
- 3 March
Flughafen Zürich AG provides the Federal Office for Civil Aviation with the additionally requested safety assessment concerning the alternative flight path along Switzerland's northern border.
- 18 March
Federal Office for Civil Aviation initiates detailed tasks relating to the Civil Aviation Infrastructure Plan (SIL) for the Zurich region.
- 22 March
The Board of Directors of Lufthansa and the Board of Directors and the major shareholders of Swiss approve the integration of Swiss into the Lufthansa group.
- 22 March
Zurich Airport receives the 2005 Excellence in Design Award for Airside Center and the railway terminal.
- 29 March
Federal Office for Civil Aviation approves the temporary operating regulations.
- 14 April
At the General Meeting of Shareholders, the names of the new persons appointed by the Canton of Zurich to the Board of Directors are announced. Lukas Briner is to replace Christian Huber as of 1 May 2005, and Martin Wetter is to replace Dorothee Fierz as of 1 July 2005.
- 14 April
Tightening of German flyover restrictions, transfer of holding zones to Swiss airspace, and associated modifications of take-off routes, especially those towards the east.
- 4 May
Germany's Administrative High Court rules that the proceedings initiated by Flughafen Zürich AG against the German flyover restrictions are to be suspended until the European Court of Justice has ruled on the case filed by the Swiss Confederation.
- 22 June
Josef Felder, CEO of Flughafen Zürich AG, is elected to the management committee of ACI Europe, the umbrella organisation of European airport operators.
- 23 June
The Department of Economics of the Canton of Zurich publishes a report on the enormous economical impacts that would result if the number of flight movements were to be restricted.
- 27 June
Consortium in which Flughafen Zürich AG holds a stake, and which is constructing a new intercontinental airport in Bangalore (India), reaches financial close. Construction work can therefore begin.
- 11 August
Inauguration of event dock (8,000 square metres, former Dock B), to coincide with the opening of the series of special events attracting a total of around 60,000 visitors.
- 19 September
ICAO (International Civil Aviation Organisation) holds "Sprit 2005" exercise.
- 26 September
At this year's Route Development Conference, the Aviation Marketing team of Flughafen Zurich AG receives the Airport Marketing Award for the second time.
- 2 October
Inauguration of 12,000-square-metre open-air events area (Areal 102).
- 7 October
Department of Economics of the Canton of Zurich publishes a study in which it estimates the financial impacts of flyover restrictions imposed by Germany at around 500 million Swiss francs.
- 25–26 October
Co-ordination meeting and press conference concerning the SIL (Civil Aviation Infrastructure Plan) process: presentation of principles (including the demand forecast of the federal government).

- 25–26 October
“Aeroporto 05” security exercise (with local regiment)
- 4 November
Zurich Airport receives “Structural Award” for Airside Center.
- 11 November
Issue of building permit for airport hotel.
- 13 November
Zurich Airport receives 2005 World Travel Award for Best European Airport for the second year in succession.
- 14 November
In terms of punctuality, Zurich Airport climbs from 26th place to 9th out of the 27 most important European airports.
- 15 November
Zurich Airport receives the “2005 Prix Acier”, its third architectural award in the course of the year. This prize was awarded for Airside Center and the new airport bus terminal.
- 22 November
Flughafen Zürich AG takes over operation of the city of Winterthur’s fire brigade alarm centre service.
- 27 November
Swiss electorate votes in favour of retaining Sunday opening hours for all shops in railway stations and airports.



Adrian Boss
Chief Information Officer



Business report

Strategy and value management

Strategic focus

Zurich Airport is extensively networked at the international, national and regional levels, and as the country's largest national airport, it functions as a hub that connects civil aviation with other forms of public and private transport to form a comprehensive nation-wide network. In view of its importance as a transport hub, Zurich Airport is fully committed to the highest possible quality. Flughafen Zürich AG operates Zurich Airport on the basis of a landlord principle. Core processes are operated or controlled by the airport itself, but wherever core competencies for services and processes lie with third parties, responsibility for their performance is assigned to the latter.

In the international arena, Zurich Airport offers its hub carrier an attractive infrastructure for operating an intercontinental flight network. At the same time, the modern infrastructure is ideally suited for point-to-point services of all other airlines, including low-cost carriers. In keeping with its own quality criteria, Zurich Airport offers all its clients a uniform infrastructure, i.e. it does not provide special low-cost facilities.

As a transport hub, Zurich Airport operates an attractive and successful commercial centre with a broad range of shops, services and entertainment facilities of national and international appeal, and is constantly expanding these facilities.

As a listed company, Flughafen Zürich AG has a business orientation and offers its shareholders a suitable return on investment. It focuses on "airport value added" and sets out to fulfil its ecological and social responsibilities while taking account of its operating mandate and the existing political conditions.

Financial value management

Flughafen Zürich AG focuses on increasing its corporate added value and sustainable development. To measure its progress in this area it has implemented a value-based control system (airport value added) that indicates the amount that is generated over and above the capital costs, i.e. earnings before interest and taxes (EBIT) are measured against the average invested capital.

All investment decisions of Flughafen Zürich AG are taken on the basis of airport value added, which also serves as the financial measurement criterion for calculating the performance-based portion of management staff.

Personnel

Our goal is to employ the right people with the right skills for the right job. To accomplish this, a tool ("Navigator") was developed for determining the best location and direction for employees. This tool takes the form of a catalogue of the essential skills for achieving success. It creates a uniformly comprehensible language for the whole organisation and ensures the use of uniform criteria for the recruitment, assessment and development of all employees.

For Flughafen Zürich AG, its employees are its key to success, and their concerns and opinions are therefore of great importance to us. A survey conducted in summer 2005 revealed that employees of Flughafen Zürich AG have a high level of job satisfaction and show a strong level of commitment. Wherever a need for action was identified, appropriate measures were defined and implemented.

Environment

Flughafen Zürich AG operates a networked transport hub to meet society's mobility needs, together with a major commercial centre providing a broad range of shops and services. While taking account of our operating mandate and the general political conditions, we endeavoured to fulfil our ecological responsibilities in as balanced a manner as possible in those areas in which we are able to exert an influence, namely flight operations, infrastructure and landside transport.

To reach our goals, we set out to develop sustainable solutions that are ecologically, economically and socially sound with the aid of an environmental management system that was awarded the ISO 14001:2004 certificate.

Each year, Flughafen Zürich AG publishes an environmental report specifically concerning Zurich Airport. These reports are available as of May in the following year, and copies can be obtained from www.unique.ch/environment.





i Service Center

Michael Mena
Head of Service Center



Key financial data¹⁾

(CHF thousand, all amounts in accordance with International Financial Reporting Standards [IFRS])

	2005	2004	Change in %
Total revenue	702,229	683,686	+2.7
of which revenue from aviation operations	418,877	411,754	+1.7
of which revenue from non-aviation operations	283,352	271,932	+4.2
Operating costs	338,282	328,712	+2.9
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	363,947	354,974	+2.5
EBITDA margin	51.8 %	51.9 %	
Profit	59,123	52,268	+13.1
<i>Of which attributable to the shareholders of Flughafen Zürich AG</i>	<i>59,123</i>	<i>52,406</i>	<i>+12.8</i>
<i>Of which attributable to minority interests</i>	<i>0</i>	<i>(138)</i>	<i>n/a</i>
Investments	124,300	200,115	(37.9)
Cashflow ²⁾	236,340	245,630	(3.8)
Ø Capital employed	2,569,922	2,644,421	(2.8)
Return on Ø capital employed (ROCE)	5.4 %	4.9 %	
Equity as of 31 December	805,999	756,446	+6.6
<i>Of which attributable to the shareholders of Flughafen Zürich AG</i>	<i>805,999</i>	<i>750,126</i>	<i>+7.5</i>
<i>Of which attributable to minority interests</i>	<i>0</i>	<i>6,320</i>	<i>n/a</i>
Return on equity	7.6 %	7.2 %	
Equity ratio	26.3 %	24.0 %	
Interest-bearing liabilities (net, in accordance with IFRS)	1,745,299	1,770,910	(1.5)
Interest-bearing liabilities (IFRS) / EBITDA	4.80x	4.99x	
Interest-bearing liabilities (net, nominal)	1,779,181	1,919,134	(7.3)
Interest-bearing liabilities (nominal) / EBITDA	4.89x	5.41x	
Key operational data	2005	2004	Change in %
Number of passengers (Zurich only)	17,884,652	17,252,906	+3.7
Number of flight movements	267,363	266,660	+0.3
Freight in tonnes	372,415	363,537	+2.4
Number of full-time positions as of 31 December	1,262	1,289	(2.1)
Number of employees	1,470	1,478	(0.5)
Key data for shareholders	2005	2004	Change in %
Number of issued shares	4,912,300	4,912,300	
Proposed dividend per share (in Swiss francs)	1.00	0.00	n/a
Dividend total (in thousand Swiss francs)	4,912	0	n/a
Payout ratio	8.3 %	0.0 %	
Capital per share (in Swiss francs)	164.08	153.99	+6.6
Earnings per share (in Swiss francs)	12.08	10.97	+10.1
Diluted earnings per share (in Swiss francs)	12.06	10.96	+10.0
Share price (in Swiss francs) high	236.00	150.00	n/a
low	147.00	66.75	n/a
	Sec. number	SWIX symbol	Reuters
Flughafen Zürich AG registered share	1,056,796	UZAN	UZAZn.S

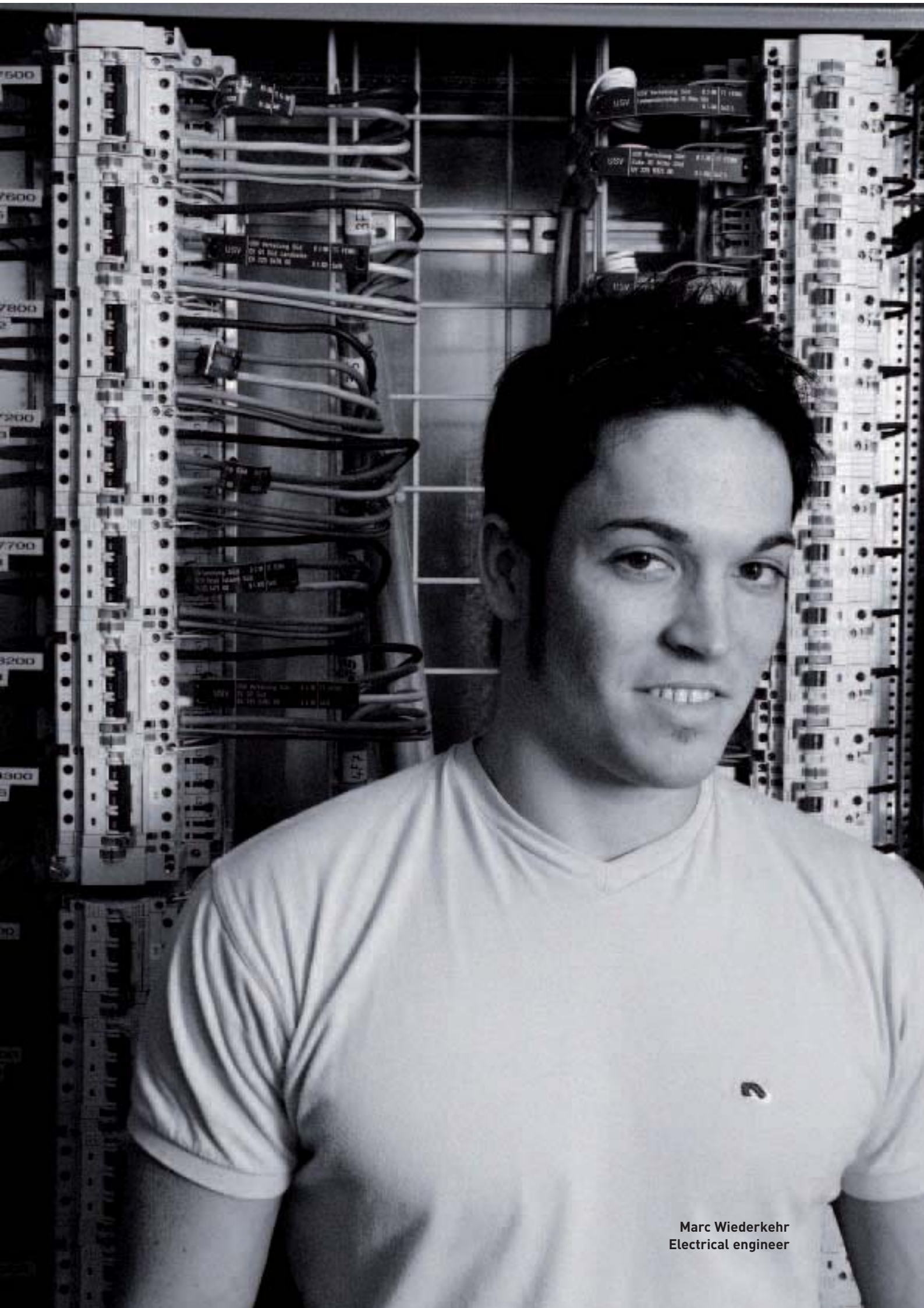
¹⁾ As a result of the change in accounting policies (see "Financial report", "Consolidated financial statements according to IFRS", "Accounting policies", "Change in accounting policies"), prior-year figures were restated.

²⁾ Profit plus depreciation and amortisation and change in non-current provisions.

Restatement of prior-year figures in the consolidated financial statements

New accounting standards and the new presentation of noise-related data have given rise to a variety of changes in accounting policies for the year under review, as well as for the previous years (restatement of figures).

With respect to noise-related costs, the Airport of Zurich Noise Fund has been de-recognised and the corresponding figures are now shown separately in the notes. Noise-related income and expenses are now recognised in the income statement, while provisions are recognised for anticipated expenses arising from sound insulation measures. As a result of the introduction of IFRS 2 (Share-based payment), the 2004 personnel expenses were restated. For further details, please refer to the "Financial report", "Consolidated financial statements according to IFRS", "Accounting policies", "Change in accounting policies".



Marc Wiederkehr
Electrical engineer



Business development

Trend in traffic volume

The traffic volume in Zurich rose versus the prior year by 0.6 million passengers, or 3.7 percent, to 17.9 million passengers – mainly thanks to an increase in the number of local passengers (plus 9.9 percent) who use Zurich Airport as a hub. The proportion of transfer passengers rose from 28 to 30 percent for the first time since the fleet reduction by the hub carrier was completed at the end of 2003. Growth in local passengers slowed versus the prior year with a year-end rate of 1.2 percent. The total of 12.5 million local passengers exceeded the previous high recorded in 2000 by 0.7 percent. Swiss posted the biggest increase in passenger volume (9.1%), followed by Air Berlin, British Airways, Fly Niki, Styrian Airways and United Airlines. Overall, the 3.7 percent increase in passenger volume in Zurich in 2005 was below the European average of 4.9 percent (source: ACI, Airports Council International). Despite the departure of easyJet, the volume of low-cost traffic at Zurich Airport only fell very slightly (from 8.8 to 8.0 percent), since other carriers such as Air Berlin and Fly Niki stepped in to fill the gap. Hub carrier Swiss was able to strengthen its market position in 2005 and thus increase its market share (which is based on passenger figures) from 48 to 51 percent. The growth of around 8 percent for local passengers and 10 percent for transfer passengers implies that the other airlines carried fewer passengers.

The number of flight movements only changed very slightly versus 2004, with an increase of 0.3 percent to 267,363. The average number of passengers per flight increased by 4.4 percent from 75 to 78. This was partly attributable to a 2.4 percent improvement in seat load factors from 65 to 67 percent, but also to an increase in the number of seats per flight. The average maximum take-off weight only rose very slightly (by 0.21 percent). One of the reasons for this is to be found in the new seating configuration of A320s operated by Swiss, which thanks to a slightly narrower seat design results in more seats per flight without reducing the space between rows.

The volume of air freight rose by 2.4 percent to 372,415 tonnes. The volume of flown freight rose more sharply (plus 3.4 percent) than that of substitute air freight transported by road (plus 0.1 percent).

In the year under review, 120 airlines offered services to 100 European and 46 intercontinental destinations from Zurich Airport. While the number of intercontinental destinations remained the same, nine European destinations were added. New destinations include Delhi, Bristol, Bologna and Göteborg, while services to Manila and Marseilles were discontinued.

Please refer to pages 71 to 85 for further details concerning traffic statistics.

Changes in the consolidation structure

The consolidation structure changed as follows in the year under review: On 31 December 2004, Flughafen Zürich AG signed a term sheet reducing its investment in Unique Chile S.A. from 100 to 48 percent, and consequently leading to a proportionate reduction of its investments in the other group companies in Chile. The necessary approval of this transaction by the Chilean government had not been received as of 31 December 2004, but it has since been granted. Since 1 January 2005, this company is included in the consolidated financial statements by applying the equity method. The influence of the deconsolidation of the companies in Chile as of 1 January 2005 on the consolidated assets and liabilities is shown in the "Financial report", "Consolidated financial statements according to IFRS", "Notes to consolidated financial statements", "Changes in the consolidation structure".

Comments on the result

Total revenue and earnings trend

Total revenue rose by 2.7 percent versus the prior year, from 683.7 million to 702.2 million Swiss francs.

Revenue from **aviation operations** increased to 418.9 million Swiss francs (plus 1.7 percent).

(CHF thousand)	2005	2004	Change in %
Passenger fees	230,328	229,500	+0.4
Landing fees	68,842	69,046	[0.3]
Noise charges	50,334	49,616	n/a
Baggage sorting and handling system	21,248	20,499	+3.7
Other earnings	11,834	7,261	+63.0
Aircraft energy supply system	9,178	10,002	[8.2]
Freight revenue	7,687	7,100	+8.3
Fuel charges	5,725	5,751	[0.5]
Parking fees	4,727	4,713	+0.3
CUTE charges (check-in system for handling agents)	4,693	4,574	+2.6
Emission fees	2,912	3,003	[3.0]
Security fees	1,197	901	+32.9
Bad debt write-offs (Aviation segment)	172	[212]	n/a
Total revenue from aviation operations	418,877	411,754	+1.7

Revenue from passenger fees rose very slightly by 0.4 percent to 230.3 million Swiss francs. This resulted from the disproportional increase in transfer passengers (plus 9.9 percent) versus local passengers (1.2 percent). Zurich Airport receives 15 Swiss francs per transfer passenger (fee = 20 Swiss francs, including noise charge of 5 Swiss francs), and 31 Swiss francs per local passenger (fee = 36 Swiss francs, including noise charge of 5 Swiss francs).

Together, revenue from noise surcharge on the passenger fee and noise-related landing charges form the noise charges. These rose in the year under review from 49.6 million to 50.3 million Swiss francs.

“Other earnings” rose sharply by 63.0 percent, or by 4.6 million to 11.8 million Swiss francs. The main reasons for this were higher revenue from the aircraft de-icing facilities (new tariff model from 1 January 2005 and more de-icing operations), consistent billing of aviation licences and higher IT revenue.

The baggage sorting and handling system generated increased revenue of around 0.8 million Swiss francs (plus 3.7 percent) as the result of a slightly higher passenger volume). By contrast, revenue from the aircraft energy supply system fell by 0.8 million to 9.2 million Swiss francs (minus 8.2 percent) due to the shorter reference times for energy and air-conditioning for aircraft handling at the stand.

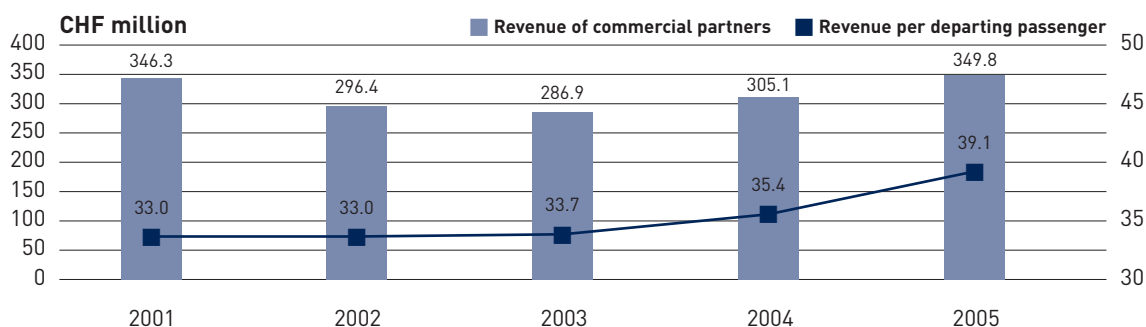
Non-aviation revenue rose by 4.2 percent from 271.9 million Swiss francs to 283.4 million.

(CHF thousand)	2005	2004	Change in %
Retail outlets and duty-free shops	55,755	47,426	+17.6
Revenue from multi-storey car parks	55,118	54,091	+1.9
Other licence revenue (car rentals, taxis, banks, etc.)	13,476	14,422	(6.6)
Advertising media and promotion	9,488	8,681	+9.3
Food and beverage operations	9,485	8,438	+12.4
Total commercial revenue	143,322	133,058	+7.7
Revenue from rental and leasing agreements	82,938	78,156	+6.1
Energy and incidental cost allocation	22,592	22,479	+0.5
Cleaning	2,758	2,195	+25.6
Other services revenue	2,452	3,393	(27.7)
Total revenue from facility management	110,740	106,223	+4.3
Communication services	9,897	8,478	+16.7
Capitalised expenditure	7,299	8,788	(16.9)
Passenger services	5,793	6,031	(3.9)
Conference Center	3,543	2,826	+25.4
Other services and miscellaneous	2,848	6,714	(57.6)
Bad debt write-offs (Non-Aviation segment)	(90)	(186)	(51.1)
Total revenue from services	29,290	32,651	(10.3)
Total revenue from Non-Aviation segment	283,352	271,932	+4.2

The biggest increase in revenue resulted from commercial revenue, which rose by 10.3 million Swiss francs (plus 7.7 percent).

Here the highest proportion was attributable to retail and duty free income (plus 17.6 percent, or 8.3 million Swiss francs). This revenue growth reflects the fact that the expanded commercial infrastructure that was created during expansion stage 5 was in operation for the full year for the first time. Food & beverage operations also benefited from this effect, and rose by 1.0 million Swiss francs (plus 12.4 percent).

In the year under review, our commercial partners generated a combined revenue in the areas of retail, duty free and food & beverage operations of 349.8 million Swiss francs, thereby exceeding the previous high recorded in 2001, even though Zurich Airport was used by around three million more passengers in that year. Thanks to the greatly improved infrastructure versus 2001, the revenue per departing passenger rose by 18.5 percent to 39.10 Swiss francs.



Despite this increase in revenue, the figures in this area are still well below the company's expectations. In view of this, Flughafen Zürich AG implemented a variety of measures in the course of 2005 aimed at generating higher revenue. The trend with respect to average revenue per departing passenger towards the end of the year under review indicates that the measures are proving effective and we can expect positive results in the future.

The increase in revenue from **multi-storey car parks** by 1.0 million to 55.1 million Swiss francs (plus 1.9 percent) strongly reflects the growth in local traffic (plus 1.2 percent) and is to some extent attributable to the increasing attractiveness of the airport as a commercial centre.

Other licence revenue fell by 0.9 million Swiss francs, or 6.6 percent, due to the elimination of revenue from the holdings in Chilean airports. These holdings have been consolidated since 1 January 2005 using the equity method. By contrast, revenue from advertising media and promotion rose by 0.8 million Swiss francs, mainly as the result of intensified marketing efforts.

In the year under review, **revenue from facility management** rose by 4.5 million Swiss francs (or 4.3 percent) to 110.7 million Swiss francs. Here, Zurich Airport continues to benefit from its attractiveness and its ideal connections and facilities for both public and private transport. As of the end of 2005, the volume of vacant space fell to 3.3 percent (31 December 2004: 4.5 percent). With the conclusion of the construction contract for the new airport hotel, which will be ready for operation by Radisson SAS in 2008, Flughafen Zurich already received additional interest income on land use rights in the year under review.

With respect to revenue from **energy and incidental cost allocation**, the increased energy prices did not translate into higher revenue since the associated price increases only became effective as of 1 January 2006.

Revenue from **services associated** with facility management primarily concerns maintenance and repairs carried out on behalf of tenants and licencees. Following the completion of expansion stage 5, the need for renovation work and the construction of new rooms and shops fell sharply, and this resulted in a minus of 0.9 million Swiss francs (or 27.7 percent). By contrast, revenue from cleaning services rose by 25.6 percent from 2.2 million to 2.8 million Swiss francs.

Revenue from **services fell** by 10.3 percent in the year under review from 32.7 million Swiss francs to 29.4 million. As a result of the decline in investment activity, capitalised expenditures fell by 1.5 million Swiss francs to 7.3 million (minus 16.9 percent). The trend with respect to communication services was once again positive, with an increase of 1.4 million Swiss francs (plus 16.7 percent). Here, too, intensive marketing activities are proving highly effective.

Revenue from **other services and miscellaneous** fell from 3.9 million Swiss francs to 2.8 million (minus 57.6 percent). Here it should be noted that the prior-year revenue of 6.7 million Swiss francs included non-recurring amounts (contributions to event days from partners, plus income from the operation of a lounge in Dock E) totalling 3.7 million Swiss francs. The lounge referred to above has been operated by Swissport since 1 January 2005. If these items are excluded, revenue from other services and miscellaneous is approximately the same as last year. This figure also includes 0.8 million Swiss francs for external consulting services provided by the company (2004: 0.7 million Swiss francs).

The **Conference Center** was once again in lively demand, with revenue increasing in 2005 by 0.7 million Swiss francs to 3.5 million (plus 25.4 percent).

In the year under review, **operating expenses** rose by 2.9 percent from 328.7 million Swiss francs to 338.3 million.

(CHF thousand)	2005	2004	Change in %
Personnel expenses	139,895	132,561	+5.5
Police and security	78,336	73,189	+7.0
Maintenance and material	49,232	45,538	+8.1
Sales, marketing, administration	32,592	31,763	+2.6
Energy and waste	21,135	19,894	+6.2
Other operating expenses	21,113	21,285	(0.8)
Other expenses/income, net	(4,021)	4,482	n/a
Total operating expenses	338,282	328,712	+2.9

As before, **personnel expenses** represent the largest cost factor: in the year under review, these rose by 5.5 percent from 132.6 million Swiss francs to 139.9 million. Here it should be noted that personnel expenses in 2004 were influenced by non-recurring factors:

(CHF thousand)	2005	2004	Change in %
Personnel expenses, reported	139,895	132,561	+5.5
Change in retirement benefit commitments	(364)	2,200	n/a
De-recognition of employers' reserves from Zurich Airport Staff Pension Fund	0	1,500	n/a
Adjusted personnel expenses	139,531	136,261	+2.4

After adjustment for non-recurring factors, the resulting increase in personnel expenses is 2.4 percent. In the year under review, employees of Flughafen Zürich AG received a moderate salary increase (maximum, plus 1.5 percent) for the first time since 11 September 2001 and the grounding of Swissair in the same year. Increases were based on personal performance. As a result of the reductions of the co-ordination deduction and minimum wage due to the implementation of the new provisions of the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) on 1 January 2005, additional expenses arose relating to retirement benefit plans. As of 31 December 2005, Flughafen Zürich AG employed 1,470 staff (2004: 1,435), with 1,262 (2004: 1,246) equivalent full-time jobs.

In the year under review, costs relating to police and security operations rose by 7.0 percent from 73.2 million Swiss francs to 78.3 million. The table below shows the costs associated with the Zurich cantonal police force and security costs relating to third parties:

(CHF thousand)	2005	2004	Change in %
Zurich cantonal police force	71,633	67,058	+6.8
Security costs relating to third parties	6,703	6,131	+9.3
Total police and security costs	78,336	73,189	+7.0

The increase in costs relating to the Zurich cantonal police force was primarily attributable to additional security measures that were introduced in October 2004, according to which all employees who carry out activities in the airport's security zones have to be subjected to security checks in the same way as passengers. In 2005, these additional security costs applied for the full year for the first time due to EU regulations that are also applicable to Switzerland. Another factor here concerns the implementation of the airside user concept as of the 2005 summer flight plan, which resulted in the operation of additional bus gates and thus the need for additional security personnel. Additional security costs also arose due to the introduction of a new regulation as of August 2005 requiring laptops to be checked separately, and as a result of the increased passenger volume.

The first full year of operation of the entire new infrastructure resulting from expansion stage 5 also had an impact on **maintenance and material costs** for all buildings and engineering structures and all technical installations. The associated expenses rose from 45.5 million Swiss francs to 49.2 million (plus 8.1 percent). Furthermore, the cold winter weather at the beginning and end of the year under review resulted in an increase in the use of costly thawing agents such as salt and de-icing fluids.

Costs relating to **sales, marketing and administration** rose by 0.8 million Swiss francs to 32.6 million (plus 2.6 percent). The savings realised in the area of PR and advertising were largely cancelled out by higher expenditure for external support – this mainly involved lawyers' costs associated with the pending case at the European Court of Justice concerning the unilateral German ordinance – and for IT.

Costs relating to **energy and waste** rose by 6.2 percent versus the prior year from 19.9 million Swiss francs to 21.1 million, due to high oil and gas prices, severe winter weather and the first full year of operation of the new infrastructure resulting from expansion stage 5.

Other operating costs fell slightly in 2005 to 21.1 million Swiss francs (minus 0.8 percent). Lower expenses for passenger services and cleaning by external contractors (since September 2004, Dock E has been cleaned by an internal service instead of by an external contractor) were offset by higher insurance premiums (increased cover), higher CUTE (check-in system for handling agents) fees due to the increase in passenger volume, and additional operating costs, especially for the airport vehicle fleet.

Other expenses/income, net includes approximately 6.6 million Swiss francs in the form of non-recurring income (repayment of accrued costs associated with the Bangalore project). In the past, these project costs were charged to the income statement, but following the completion of the project stage they were paid back directly to the company. For further details, see "Financial report", "Consolidated financial statements according to IFRS", "Notes to consolidated financial statements", note 4, "Other expenses/income, net".

Earnings before **interest, taxes, depreciation and amortisation (EBITDA)** amounted to 363.9 million Swiss francs, versus 355.0 million in 2004 – this was equivalent to an increase of 2.5 percent. The EBITDA margin remained practically unchanged at 51.8 percent.

At 188.9 million Swiss francs, **depreciation and amortisation** was 0.6 percent below the prior-year level of 190.1 million Swiss francs. In 2005, the investments in expansion stage 5 were depreciated in the normal manner throughout the full year for the first time. Last year's figure included non-recurring write-offs of all provisional structures that were required during expansion stage 5 (2.9 million Swiss francs).

Earnings before **interest and taxes (EBIT)** rose by 164.9 million Swiss francs to 175.0 million (plus 6.1 percent).

The **financial result** fell by 7.3 percent to 99.8 million Swiss francs (2004: 107.2 million). Here it should be noted that the financial result is strongly influenced by the change in fair value of the interest rate swap and the capitalised interest on borrowings relating to construction work.

(CHF thousand)	2005	2004	Change in %
Financing costs	103,272	110,913	(6.9)
Change in fair value of interest rate swap	(8,472)	(2,500)	n/a
Capitalised interest on borrowings for buildings under construction	(681)	(7,223)	n/a
Unwinding of discount on non-current provisions for sound insulation and formal expropriations	5,694	5,980	(4.8)
Total financial result	99,813	107,170	(7.3)

If the change in fair value of the interest rate swap and capitalisation of interest on borrowings are excluded, the financing costs are reduced by 6.9 percent thanks to the reduction in interest-bearing non-current liabilities (nominal) by 134.1 million Swiss francs.

Profit

The reported profit of 59.1 million Swiss francs may be regarded as a satisfactory result, but it does not meet the expectations of Flughafen Zürich AG, which had anticipated a sharper increase in the number of local passengers and higher commercial revenue.

The Board of Directors is proposing the payment of a dividend of 1 Swiss franc per share.



Segment reporting

Notes on segment reporting by Flughafen Zürich AG can be found under "Financial report", "Consolidated financial statements according to IFRS", "Accounting policies", "Segment reporting".

Aviation segment: flight operations

(CHF million)	2005	2004	Change in %
Revenue from third parties	368.5	362.1	+1.8
Inter-segment revenue	10.6	10.0	+6.0
Total revenue	379.2	372.1	+1.9
Profit from operations	(39.4)	(8.3)	n/a
Total non-current assets (net)	955.8	988.2	(3.3)
Depreciation and amortisation	55.0	49.1	+12.0
Capital expenditure	37.6	28.5	+31.9
Number of employees (full-time positions) as of 31 Dec.	571	602	(5.1)

Aviation segment: aircraft noise

(CHF million)	2005	2004	Change in %
Revenue from third parties	50.3	49.6	+1.4
Inter-segment revenue	0.0	0.0	n/a
Total revenue	50.3	49.6	+1.4
Profit from operations	46.2	46.4	(0.4)
Total non-current assets (net)	1.4	1.5	(6.7)
Depreciation and amortisation	0.1	0.1	n/a
Capital expenditure	0.0	0.0	n/a
Non-current provisions for sound insulation and formal expropriations	137.1	142.4	(3.7)
Number of employees (full-time positions) as of 31 Dec.	9	9	n/a

Non-Aviation

(CHF million)	2005	2004	Change in %
Revenue from third parties	283.4	271.9	+4.2
Inter-segment revenue	143.6	124.1	+15.7
Total revenue	426.9	396.1	+7.8
Profit from operations	168.2	126.9	+32.5
Total non-current assets (net)	1,947.7	1,996.9	(2.5)
Depreciation and amortisation	133.8	140.9	(0.5)
Capital expenditure	86.7	171.6	(49.5)
Number of employees (full-time positions) as of 31 Dec.	682	678	+0.6

Holdings and subsidiaries

Chile

The traffic trends were positive at all three Chilean airports - Puerto Montt, Calama and La Serena - in which Flughafen Zürich AG holds a stake. The overall passenger volume rose to around 1 million last year (plus 6.4 percent).

Airport in Chile	2005	2004	Change
"El Tepual" de Puerto Montt	561,188	534,089	5.1 %
"La Florida" de La Serena	155,762	148,828	4.7 %
"El Loa" de Calama	272,961	247,156	10.4 %
Total no. of passengers	989,911	930,073	6.4 %

The airport in Puerto Montt, which is located in the southern region of Chile, made the highest contribution (561,000 passengers) towards this volume. Puerto Montt relies mainly on tourism, fishing and agriculture. With around 156,000 passengers, our smallest airport (La Serena) recorded growth of 4.7 percent, primarily thanks to an increase in the tourism sector. The airport in Calama posted the strongest growth. Rapidly expanding copper mining activities and increasing tourism gave rise to a 10.4 percent increase in the passenger volume (to 273,000 passengers).

The three Chilean airports are operating profitably. Flughafen Zürich AG currently holds a 48 percent stake, but plans to reduce this to 20 percent within the next two to three years.

Venezuela

In view of the unlawful intervention by the local government concerning the airport on Isla de Margarita, the figures for the fourth quarter of 2005 were not available at the time of preparation of this annual report.

Up to the end of the third quarter, the passenger volume was approximately 1.2 million, which represents an increase of 12.4 percent versus the prior year. The greatly intensified efforts on the part of the consortium to acquire new flight routes for the attractive destination of Isla de Margarita are clearly reflected in the volume of international passengers, which rose sharply by 28.7 percent. The airport posted a highly pleasing result as of the end of the third quarter.

Flughafen Zürich AG holds a 49.5 percent stake.

Bangalore

In June 2005, the project stage for the new international airport in Bangalore was completed following the attainment of the financial close. Construction work commenced in July, and the new airport will be ready for operation at the beginning of 2008. With the financial close, the accumulated project costs amounting to around 6.6 million Swiss francs flowed back to the company.

Owner and operator of the new airport is Bangalore International Airports Ltd. (BIAL), in which Flughafen Zürich AG holds a 17 percent stake.

Flughafen Zürich AG is to secure the construction and operation of the airport on the basis of an operation, management and service level agreement. Revenue has been flowing to Flughafen Zürich AG from this agreement ever since construction work was commenced.

The share capital of BIAL will be paid in during the construction stage up until 2008. As of the end of the 2005 financial year, Flughafen Zürich AG had subscribed share capital totalling 4.4 million Swiss francs. The total capital investment will amount to approximately 16 million Swiss francs as of the end of the construction stage.

APT Airport Technologies AG

The focus of APT Airport Technologies AG was on the consistent use of the range of IT services. Market shares were significantly increased in all the main areas relating to IT services. In addition to handling agents like Swissport, Jet Aviation and Cargologic, a variety of airlines (e.g. Swiss, Lufthansa, Delta) now also make use of the network services of APT Airport Technologies AG. The range of services is continuing to expand rapidly. As of April 2006, CUSS (common user self service) machines will be available in Check-in 2 and Check-in 3 so that passengers of all airlines will then be able to check themselves in. APT will be placing the baggage reconciliation system, which ensures that all items of baggage carried on board are matched to a passenger, at the disposal of all airlines from the end of 2006, at which time the current EDS system will be decommissioned. APT Airport Technologies AG is a wholly owned subsidiary of Flughafen Zürich AG. In the year under review it reported a turnover of around 9.1 million Swiss francs and operated at a profit.

Highlights from the divisions

Operations

New systems

In April 2005, the FBAS (flight information and accounting) system was replaced by AIMS Airport, as a result of which invoicing is now carried out by SAP Skybilling. In July 2005, the existing maintenance system (Maximo) for all technical installations was replaced by SAP PM. In November, the seasonal flight information system (SFS), which is based on AIM Airport, was put into operation, and the new scheduling tool for the Canton of Zurich police force, which permits the more efficient scheduling of shifts, was also introduced in the same month.

External information and communication technology sales

The trend in sales of external information and communication technology was once again very positive in 2005. Sales rose sharply in the areas of cable and line rentals, as well as aviation services. In November, the British Airport Authority decided in favour of "Zeus" as the new staff information system for Heathrow and Stansted airports.

Snow and ice

Zurich Airport had to contend with an intensive and severe winter, which broke all existing records. There was a great deal of snowfall, and much of it was extremely intense. A total of 73 clearance operations were required (versus 47 in 2004), and 8,180 aircraft had to be de-iced (2004: 4,777). For the first time, all de-icing operations were carried out by Swissport.

In winter 2005/06, the new agent, Aviform L 50, will be used for de-icing flight operation zones. This is a potassium formate that is more efficient and is highly bio-degradable. It has been in use for many years at numerous international airports.

Marketing & Real Estate

Systematic optimisation and marketing of commercial space

In 2005, the average level of consumption per passenger rose significantly, even if it did not meet the ambitious expectations of Flughafen Zürich AG. For the first time, the turnover from commercial activities exceeded the record level posted in 2001. Practically all space intended for commercial use is now occupied, and the volume of vacant office space has also been reduced again. The range of shops and services corresponds to the strategic orientation of Flughafen Zürich AG, which now plays an exemplary role in the area of commercial operations.

Functionality, quality and cleanliness of the airport infrastructure

Improvements were made last year with respect to the availability and quality of the airport infrastructure. In the AETRA benchmark programme, which compares the quality of the 29 largest airports in Europe, Zurich was ranked an impressive second, and in some categories (e.g. cleanliness) it even took first place.

Public Affairs & Environment

Sustainable protection of the environment

Following the completion of expansion stage 5, the focus of activities in the area of environmental protection is now on optimising the operation of the new infrastructure and complying with the environmental monitoring requirement stipulated by the relevant authorities. Significant progress was achieved with respect to the general drainage plan and in the area of removal of residual pollution.

Clarifications were made regarding the potential introduction of a CO₂ fee and the necessary modification of the existing large-scale consumer agreement with airport partners. Findings in the area of air quality management were successfully brought into workgroups of the International Civil Aviation Organisation (ICAO). This enables us to have an early say in important international developments in the area of environmental protection.

The positive audit shows that the environmental management system that has been in place since 2001 and was awarded the ISO 14,001 quality certificate is being applied effectively. The benchmark that applies in Zurich and at other European airports will contribute towards the ongoing improvement of environmental management and efficiency.



Peter Röhrich
Head of Airport Steering



Martin Miescher
Deputy ramp safety manager

Assets and financial position

Investments

A total of 124.3 million Swiss francs was invested during the year under review, versus 200.1 million in the prior year. Overview of investments by category:

(CHF million)	2005	2004
Movables	9.8	10.0
Projects in progress in leasing	1.7	0.6
Projects in progress	105.1	169.1
Intangible assets	5.9	4.8
Financial assets	1.8	15.6
Total	124.3	200.1
Of which for expansion stage 5	46.6	130.3

In addition to investments for expansion stage 5, expenses are included for the following projects:

- Implementation of regulations relating to the general drainage plan (5.6 million Swiss francs)
- Conversion of finger dock B to event dock B (10.3 million Swiss francs)
- Replacement of airfield fire-fighting vehicles (3.2 million Swiss francs)
- Replacement of primary electricity supply (1.1 million Swiss francs)
- Investments in IT projects such as Airport Operational Database (1.5 million Swiss francs)
- Replacement of central access control system (software, 1.0 million Swiss francs)
- New airport access control system (hardware, 1.4 million Swiss francs)

On 5 July 2005, the 4.625 percent 2000–2005 debenture with a nominal value of 82 million Swiss francs, and on 20 December 2005 the first repayment of liabilities towards banks arising from the US car park lease (3.606 percent, 44.4 million Swiss francs nominal value), were each repaid from available liquidity in full and in accordance with the respective agreements.

Consolidated cash-flow statement

(CHF thousand)	2005	2004	Change in %
Cash flow from operations	323,285	307,458	5.15
<i>of which from noise charges</i>	<i>39,372</i>	<i>36,494</i>	<i>7.89</i>
<i>Total revenue from noise charges</i>	<i>50,334</i>	<i>49,616</i>	<i>1.45</i>
<i>Total expenses for sound insulation and formal expropriations</i>	<i>(10,962)</i>	<i>(13,122)</i>	<i>(16.46)</i>
Cash flow from investing activities	(121,517)	(195,617)	(37.88)
Cash flow from financing activities	(210,821)	(206,855)	1.92
Decrease in cash and cash equivalents	(9,053)	(95,014)	
Balance at beginning of financial year	45,790	140,804	
Decrease in cash and cash equivalents	(9,053)	(95,014)	
Balance at end of financial year	36,737	45,790	

In 2005, cash flow from operations rose by 5.15 percent to 323.3 million Swiss francs, of which cash flow from noise charges amounted to 39.4 million Swiss francs (2004: 36.4 million). Cash flow from investing activities fell by 74.1 million Swiss francs to 121.5 million as a consequence of the completion of expansion stage 5 in 2004.

On 5 July 2005, the 4.625 percent 2000–2005 debenture with a nominal value of 82 million Swiss francs, and on 20 December 2005 the first repayment of liabilities towards banks arising from the US car park lease (3.606 percent, 44.4 million Swiss francs nominal value), were each repaid from availability liquidity in full and in accordance with the respective agreements. In 2005, cash flow from financing activities amounted to 210.8 million Swiss francs (2004: 206.9 million).

As of the end of the 2005 financial year, the balance was 36.7 million Swiss francs, a decrease of 9.1 million Swiss francs versus 31 December 2004 (45.8 million Swiss francs).

Nominal net debt fell in the year under review to 1.799 billion Swiss francs (minus 140 million Swiss francs). For the calculation of nominal net debt, borrowings are shown at values to be paid in Swiss francs, taking into account the cash flow hedges.

(CHF thousand)	2005	2004	Change in %
Financial liabilities, nominal	1,812,678	1,946,827	(6.9)
Less cash and cash equivalents	(33,497)	(27,693)	+21.0
Nominal net debt	1,779,181	1,919,134	(7.3)
Decrease	(139,953)	(68,057)	

Balance sheet structure

In the year under review, the **balance sheet** total fell by 92.2 million Swiss francs to 3,059.8 million. At the same time, **current assets** fell slightly (minus 10.6 million Swiss francs), with the result that investment intensity remained practically unchanged (94.9 percent versus 94.7 percent in 2004).

Equity was increased by 49.6 million Swiss francs and now amounts to 806.0 million, which corresponds to a proportion of 26.3 percent (2004: 24.0 percent).

Both current and non-current liabilities fell significantly in 2005. The reduction of total borrowings amounted to almost 142 million Swiss francs.

Key balance sheet data

(CHF thousand)	in %	2005	in %	2004
Non-current assets	94.9%	2,904,965	94.7%	2,986,607
Current assets	5.1%	154,884	5.3%	165,489
Balance sheet total	100.0%	3,059,849	100.0%	3,152,096
Total equity	26.3%	805,999	24.0%	756,446
Non-current liabilities	59.6%	1,823,001	58.7%	1,850,597
Current liabilities	14.1%	430,849	17.3%	545,053
Balance sheet total	100.0%	3,059,849	100.0%	3,152,096
Capital employed		2,569,922		2,644,421
Return on average capital employed (ROCE)	5.4%		4.9%	
Return on equity	7.6%		7.2%	
Interest-bearing liabilities (net, in accordance with IFRS)		1,745,299		1,770,910
Interest-bearing liabilities (IFRS)/EBITDA		4.80x		4.99x
Interest-bearing liabilities (net, nominal)		1,779,181		1,919,134
Interest-bearing liabilities (nominal)/EBITDA		4.89x		5.41x



Abflug Depart

Time	Exp.	Destination
1900		London LGW
1920	1945	Lisbon
1950		Prague
2005		Budapest
2025		Johannesbg
2050		Tel Aviv
		Wien
		Hamburg
		Düsseldorf

Outlook

General outlook

2006 is expected to be a good year for the Swiss economy: for example, the State Secretariat for Economic Affairs (seco) anticipates economic growth of 1.8 percent. The economic development of Switzerland influences both the traffic trend and earnings in the commercial segment.

Trend in traffic volume and aviation revenue

Past experience has shown that, at Zurich Airport, the volume of local passengers grows twice as quickly as the economy. A sharp increase in volume in the low-cost segment can also give rise to additional growth, and Flughafen Zürich AG intends to develop this segment in 2006.

The trend with respect to transfer passengers largely depends on the hub carrier, Swiss, which recorded a very high capacity utilisation in 2005 that it is unlikely to better in 2006. At the same time Flughafen Zürich AG assumes that Swiss will not be expanding its fleet in 2006. The transfer market is therefore likely to remain stable.

In view of this assessment of the market, Flughafen Zürich AG expects the volume of passengers at Zurich Airport to reach approximately 18.5 million (plus 3.4 percent) in 2006, while the proportion of transfer passengers should remain at around 30 percent (unchanged). The number of flight movements is likely to fall slightly since Flughafen Zürich AG anticipates a further minor improvement in capacity utilisation.

No increases in charges are planned for 2006, but Flughafen Zürich AG expects additional revenue in the single-digit millions from the new utilisation charges that came into effect on 1 January.

Non-Aviation segment

No exceptional developments are expected with respect to commercial revenue in 2006. Income from retail, duty free and food & beverages may grow at a slightly higher pace than the passenger volume, and Flughafen Zürich AG anticipates a minor increase in parking revenue per passenger.

Investments

Investments amounting to around 110 million Swiss francs are planned for 2006, but no single project will exceed 10 million Swiss francs. These investments correspond to the amount that is required to preserve the existing substance.

Financing

An outstanding debenture (90 million Swiss francs, 12 April 2006) and the repayment of a further tranche of car park financing (approximately 46 million Swiss francs, 20 December 2006) become due in 2006. Both repayments are to be made from available liquidity. It will therefore be possible to reduce net debt again as planned.

Outlook for 2006 result

Flughafen Zürich AG expects total revenue to increase by four to five percent next year. With the exception of sharply rising security costs, it should be possible for the increase in revenue to outweigh the increase in expenses thanks to consistent cost management. It should therefore be possible to maintain the EBITDA margin at the 2005 level. Thanks to reduced depreciation and lower capital costs (reduction of interest-bearing borrowings), Flughafen Zürich AG anticipates a higher profit in 2006 versus 2005.

This outlook does not reflect the financial impacts of measures to be proposed to the General Meeting of Shareholders to deal with noise-related issues.

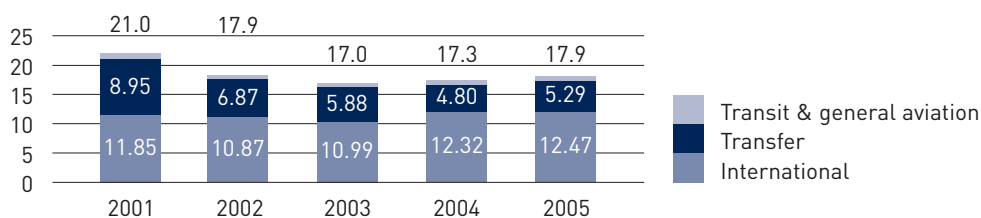
ZRH traffic statistics



Passenger volumes

	2005	2004	2003	2002	2001
Total passengers	17,884,652	17,252,906	17,024,937	17,948,058	21,012,871
Change versus previous year (in %)	3.7	1.3	(5.1)	(14.6)	(7.3)
By type of passenger					
Airline passengers	17,835,291	17,206,742	16,976,860	17,902,073	20,970,741
Change versus previous year (in %)	3.7	1.4	(5.2)	(14.6)	(7.3)
Local passengers	12,468,199	12,323,227	10,994,109	10,871,258	11,853,979
Change versus previous year (in %)	1.2	12.1	1.1	(8.3)	(4.2)
Transfer passengers	5,286,570	4,809,390	5,884,786	6,872,308	8,959,558
Change versus previous year (in %)	9.9	(18.3)	(14.4)	(23.3)	(11.0)
Transit passengers	80,522	74,125	97,965	158,507	157,204
Change versus previous year (in %)	8.6	(24.3)	(38.2)	0.8	(13.5)
General aviation & other passengers	49,361	46,164	48,077	45,985	42,130
Change versus previous year (in %)	6.9	(4.0)	4.5	9.2	(12.2)
By type of flight					
Scheduled flights	16,284,752	15,313,073	15,200,005	15,904,090	18,916,434
Change versus previous year (in %)	6.3	0.7	(4.4)	(15.9)	(8.0)
Traditional carriers	14,859,211	13,800,433	14,217,828	15,475,389	18,656,469
Change versus previous year (in %)	7.7	(2.9)	(8.1)	(17.1)	(8.1)
Low-cost carriers	1,425,541	1,512,640	982,177	428,701	259,965
Change versus previous year (in %)	(5.8)	54.0	129.1	64.9	1.0
Non-scheduled flights (charter)	1,550,539	1,893,669	1,776,855	1,997,983	2,054,307
Change versus previous year (in %)	(18.1)	6.6	(11.1)	(2.7)	(1.0)
General aviation and other flights	49,361	46,164	48,077	45,985	42,130
Change versus previous year (in %)	6.9	(4.0)	4.5	9.2	(12.2)
By origin/destination (airline passengers only)					
Europe	13,559,627	12,835,196	12,495,246	12,716,552	15,087,675
Change versus previous year (in %)	5.6	2.7	(1.7)	(15.7)	(9.0)
Intercontinental	4,275,664	4,371,546	4,481,614	5,185,521	5,883,066
Change versus previous year (in %)	(2.2)	(2.5)	(13.6)	(11.9)	(4.0)
North America	1,416,844	1,416,307	1,437,141	1,590,843	1,991,820
Change versus previous year (in %)	0.0	(1.4)	(9.7)	(20.1)	(11.4)
Asia	1,851,763	1,882,254	1,896,692	2,101,857	2,200,915
Change versus previous year (in %)	(1.6)	(0.8)	(9.8)	(4.5)	(9.4)
Africa	798,946	828,267	876,606	1,214,342	1,377,608
Change versus previous year (in %)	(3.5)	(5.5)	(27.8)	(11.9)	21.2
Latin America	208,111	244,718	271,175	278,479	312,723
Change versus previous year (in %)	(15.0)	(9.8)	(2.6)	(11.0)	(0.8)
Seat load factor	66.7%	65.1%	64.8%	64.1%	63.7%
Change versus previous year (in %)	2.4	0.5	1.1	0.5	(0.4)
Passengers per movement					
(passenger aircraft movements only)	78.0	74.7	72.5	72.4	76.7
Change versus previous year (in %)	4.4	3.0	0.1	(5.6)	(1.6)

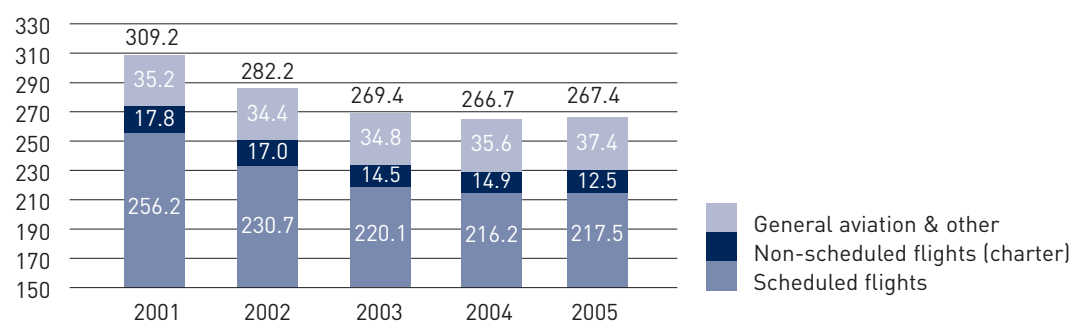
Passenger development (millions)



Flight movements

	2005	2004	2003	2002	2001
Total movements	267,363	266,660	269,392	282,154	309,230
Change versus previous year (in %)	0.3	(1.0)	(4.5)	(8.8)	(5.0)
By type of operation					
Scheduled & charter airlines	229,980	231,086	234,627	247,720	274,054
Change versus previous year (in %)	(0.5)	(1.5)	(5.3)	(9.6)	(5.8)
Passenger aircraft	228,781	230,370	234,084	247,107	273,261
Change versus previous year (in %)	(0.7)	(1.6)	(5.3)	(9.6)	(5.8)
Freight aircraft	1,199	716	543	613	793
Change versus previous year (in %)	67.5	31.9	(11.4)	(22.7)	31.5
General aviation and other	37,405	35,574	34,765	34,434	35,176
Change versus previous year (in %)	5.1	2.3	1.0	(2.1)	1.2
By type of flight					
Scheduled flights	217,494	216,224	220,130	230,699	256,244
Change versus previous year (in %)	0.6	(1.8)	(4.6)	(10.0)	(5.7)
Traditional carriers	198,320	194,263	208,873	226,145	253,938
Change versus previous year (in %)	2.1	(7.0)	(7.6)	(10.9)	(5.8)
Low-cost carriers	19,174	21,961	11,257	4,554	2,306
Change versus previous year (in %)	(12.7)	95.1	147.2	97.5	1.2
Non-scheduled flights (charter)	12,486	14,862	14,497	17,021	17,810
Change versus previous year (in %)	(16.0)	2.5	(14.8)	(4.4)	(6.4)
General aviation and other	37,383	35,574	34,765	34,434	35,176
Change versus previous year (in %)	5.1	2.3	1.0	(2.1)	1.2
By origin / destination (airlines only)					
Europe	203,670	204,890	207,255	217,032	238,737
Change versus previous year (in %)	(0.6)	(1.1)	(4.5)	(9.1)	(3.5)
Intercontinental	26,310	26,196	27,372	30,688	35,317
Change versus previous year (in %)	0.4	(4.3)	(10.8)	(13.1)	(18.6)
North America	8,463	8,089	8,647	9,120	11,883
Change versus previous year (in %)	4.6	(6.5)	(5.2)	(23.3)	(3.8)
Asia	10,812	10,853	11,002	11,418	12,610
Change versus previous year (in %)	(0.4)	(1.4)	(3.6)	(9.5)	(36.6)
Africa	5,943	6,108	6,526	8,728	9,212
Change versus previous year (in %)	(2.7)	(6.4)	(25.2)	(5.3)	(4.7)
Latin America	1,092	1,145	1,197	1,427	1,611
Change versus previous year (in %)	(4.6)	(4.3)	(16.1)	(11.4)	10.2
Average MTOW					
(maximum take-off weight)	68.3	68.2	69.1	71.8	76.5
Change versus previous year (in %)	0.1	(1.3)	(3.8)	(6.1)	(0.8)

Development of flight movements (thousands)



Freight and mail

	2005	2004	2003	2002	2001
Freight in tonnes	372,415	363,537	389,843	421,811	492,872
Change in %	2.4	(6.7)	(7.6)	(14.4)	(9.6)
By type of transport					
Air freight	266,401	257,601	283,831	309,724	352,607
Change in %	3.4	(9.2)	(8.4)	(12.2)	(10.8)
Road transport	106,015	105,936	106,012	112,087	140,265
Change in %	0.1	(0.1)	(5.4)	(20.1)	(6.7)
Mail in tonnes	21,475	22,963	21,650	22,990	21,680
Change in %	(6.5)	6.1	(5.8)	6.0	(5.1)

	2005	2004	2003	2002	2001
Number of airlines					
Scheduled flights	78	76	67	61	70
Non-scheduled flights (charter)	42	42	41	51	61

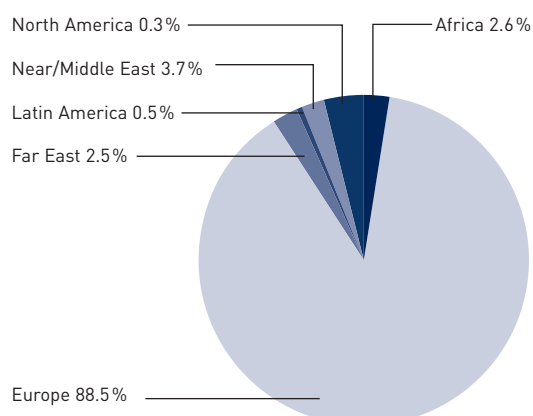
Destinations, scheduled flights (cities)

Europe	100	91	88	86	92
Africa	15	15	21	22	25
Asia	18	18	20	29	33
North America	12	12	11	17	17
Latin America	3	3	3	10	9
Total	148	139	143	164	176

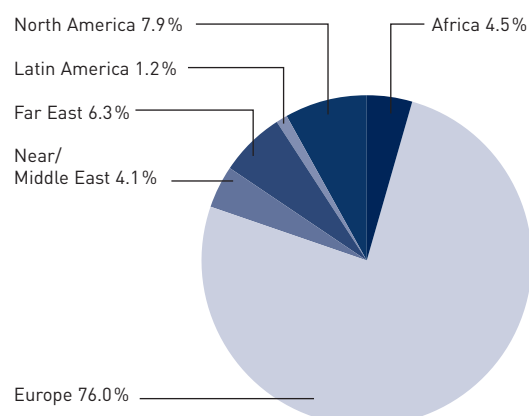
Destinations, scheduled flights (countries)

Europe	35	35	34	34	34
Africa	11	11	14	13	15
Asia	16	16	17	22	24
North America	2	2	2	2	2
Latin America	3	3	2	5	6
Total	67	67	69	76	81

Origin and destination by movements (2005)



Origin and destination by passengers (2005)



Airlines in Zurich in 2005 (more than 5 landings in the period under review)

Scheduled

Adria Airways
Aer Lingus
Aeroflot Russian
International Airlines
Aerolineas Argentinas **
Air Alps **
Air Berlin
Air Bosna *
Air Canada
Air Enterprise Pulkova
Air Europa, Lineas Aéreas S.A.
Air France
Air Malta
Air Mauritius
Air Nostrum
Air Seychelles **
Air Srpska
Albanian Airlines
Alitalia
American Airlines
Atlas Blue **
AUA, Austrian Airlines
BA City Express

British Airways
Bulgaria Air
Cirrus Luftverkehr
Gesellschaft
City Airline *
Continental Airlines
Croatia Airlines
CSA, Czech Airlines
Cyprus Airways
Dauair *
Delta Air Lines
Denim Air **
Deutsche Lufthansa
EL AL, Israel Airlines
Emirates
EU Jet **
European Air Express
Finnair
Flybaboo *
Fly Niki
Germanwings
Hahn Air **
Hamburg Internationale
Luftfahrtsgesellschaft
Helvetic Airways

Iberia
Icelandair
Japan Airlines
JAT Airways
KLM, Royal Dutch Airlines
Korean Air
LOT, Polskie Linie
Lotnicze
Macedonian Airlines
Maersk Air **
MAS, Malaysian Airlines
Malev, Hungarian Airlines
Montenegro Airlines
Ostfries. Lufttransport
Portugalía
Qatar Airways Comp.
Royal Air Maroc
Royal Jordanian Airline
South African Airways
SAS, Scandinavian
Airlines System
SATA International Azores
Singapore Airlines
Skyeurope Airlines **
Smartwings **

Srilankan Airlines LTD **
Styrian Airways
Sun Express
Swiss International
Airlines
TAP Portugal
Thai Airways International
Tunis Air
THY, Turkish Airlines
Ukraine International
Airline
United Airlines

Total 78 airlines

*) = commenced operation during 2005

**) = ceased operation during 2005

Charter

Aegean Aviation (Greece)
African Safari Airways (Kenya)
Air Adriatic (Italy)
Air Cairo (Egypt)
Aircraft Maintenance Comp. (Egypt)
Airlinair (France)
Atlas International (Turkey)
Axis Airways (France)
Belair Airlines AG (Switzerland)
Blue Line (France)

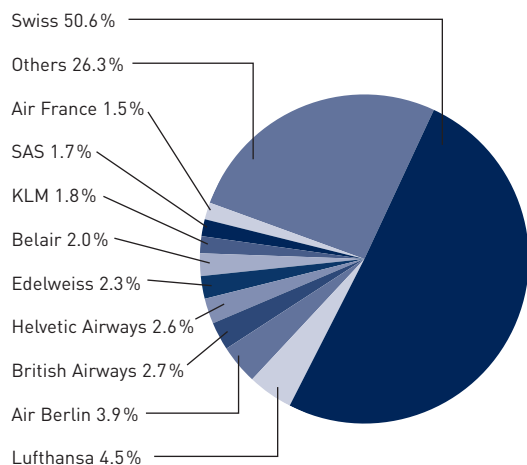
Dubrovnik Airline (Croatia)
Dunayais Hava (Turkey)
Edelweiss Air (Switzerland)
Eurowings (Germany)
Fischer Air (Czech Republic)
Fly Havayolu (Turkey)
Free Bird Airlines (Turkey)
Gestio Aerea Ajecutiva (Spain)
Germanwings (Germany)
Hello AG (Switzerland)
Helvetic Airways (Switzerland)

Hemus Air (Bulgaria)
Icar Air (Faroe Islands)
Intersky Luftfahrt Gesellschaft (Austria)
Lions Air (Switzerland)
LTE International Air (Germany)
Malmo Aviation (Sweden)
Meridiana (Italy)
MNG Airlines (Turkey)
Montenegro Airlines
Myway Airlines (Italy)
Nouvel Air (Tunisia)
Onur Air (Turkey)
Pegasus (Turkey)

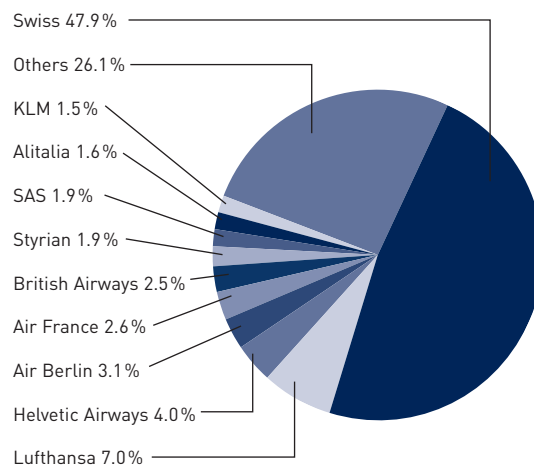
Sky Airlines (Germany)
Skywork (Switzerland)
Spanair (Spain)
Sun Express (Turkey)
Thomas Cook Airline (UK)
Transavia (Netherlands)
WDL Flugdienst (Germany)
Welcome Air Luftfahrt. (Austria)

Total 42 airlines

Passengers by airline (2005)



Movements by airline (2005)



Origin and destination of movements by country (scheduled and charter)

	Scheduled	Charter	Total	in %
Europe				
Albania	134	4	138	0.1
Austria	12,586	100	12,686	5.5
Belgium	4,252	5	4,257	1.9
Bosnia and Herzegovina	177	0	177	0.1
Bulgaria	282	193	475	0.2
Croatia	1,180	145	1,325	0.6
Cyprus	441	287	728	0.3
Czech Republic	4,038	17	4,055	1.8
Denmark	5,646	21	5,667	2.5
Finland	1,505	11	1,516	0.7
France	13,173	192	13,365	5.8
Germany	51,638	411	52,049	22.6
Greece	2,193	1,436	3,629	1.6
Hungary	2,942	19	2,961	1.3
Iceland	22	28	50	0.0
Ireland	1,058	63	1,121	0.5
Italy	15,631	624	16,255	7.1
Luxembourg	1,379	8	1,387	0.6
Macedonia	1,640	97	1,737	0.8
Malta	470	8	478	0.2
Netherlands	6,291	34	6,325	2.8
Norway	609	0	609	0.3
Poland	4,185	4	4,189	1.8
Portugal	3,646	136	3,782	1.6
Romania	734	12	746	0.3
Russian Federation	2,249	13	2,262	1.0
Slovakia	591	8	599	0.3
Slovenia	930	0	930	0.4
Spain	13,420	1,643	15,063	6.5
Sweden	3,402	86	3,488	1.5
Turkey	2,516	2,569	5,085	2.2
Ukraine	726	16	742	0.3
United Kingdom	19,648	178	19,826	8.6
Yugoslavia	4,357	1,171	5,528	2.4
Domestic flights	10,152	288	10,440	4.5
Total Europe	193,843	9,827	203,670	88.6
of which EU	169,066	5,290	174,356	85.6
 Africa	3,999	1,944	5,943	2.6
Near/Middle East	5,111	17	5,128	2.2
Far East	5,452	232	5,684	2.5
Latin America	678	414	1,092	0.5
North America	8,411	52	8,463	3.7
 Total intercontinental	23,651	2,659	26,310	11.4
 Overall total	217,494	12,486	229,980	100.0



Market positioning



Traffic statistics (2005)

Number of commercial passengers

	in millions	Change in %
Heathrow	67.9	0.8
Paris-CDG	53.8	4.9
Frankfurt	52.2	2.2
Amsterdam	44.2	3.8
Madrid	41.9	8.4
Gatwick	32.8	4.2
Rome-FCO	28.7	2.0
Munich	28.6	6.7
Barcelona	27.1	10.5
Paris-Orly	24.9	3.3
Manchester	22.7	5.5
Stansted	22.0	5.3
Palma de Mallorca	21.2	4.0
Copenhagen	19.8	5.0
Milan	19.6	5.7
Dublin	18.5	7.7
Zurich	17.9	3.7

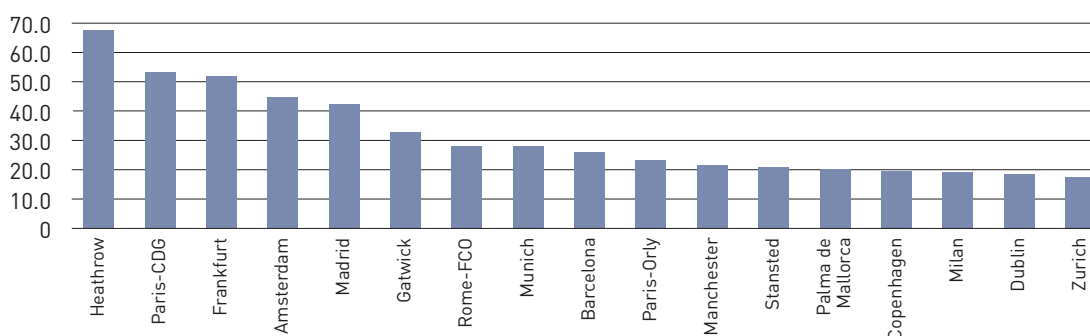
Air freight

	in tonnes	Change in %
Frankfurt	1,864.6	8.2
Paris-CDG	1,770.9	8.2
Amsterdam	1,449.9	2.0
Heathrow	1,306.0	(1.4)
Brussels	694.8	6.0
Zurich	372.4	2.4
Milan	368.2	6.1
Madrid	328.3	(3.5)
Stansted	238.4	4.8
Gatwick	222.8	2.1
Munich	202.9	18.7
Vienna	167.5	15.0
Manchester	148.2	(1.1)
Rome-FCO	129.5	(1.6)
Athens	105.1	(3.8)
Helsinki	102.2	(7.0)
Paris-Orly	93.9	(12.5)

Number of commercial movements

	in thousands	Change in %
Paris-CDG	513.7	(0.5)
Heathrow	472.0	0.5
Frankfurt	470.1	2.9
Madrid	413.9	3.5
Amsterdam	404.6	0.5
Munich	374.6	4.2
Barcelona	304.1	5.7
Rome-FCO	303.0	(0.5)
Copenhagen	262.1	(1.6)
Gatwick	252.2	4.4
Zurich	240.3	(0.1)
Brussels	231.1	(0.1)
Vienna	228.3	2.7
Milan	227.7	6.2
Paris-Orly	222.9	1.9
Stockholm	222.0	(5.2)
Manchester	217.3	4.1

Passengers in millions



Traffic frequencies



Traffic frequencies and payload figures at Zurich Airport, 1980–2005

Passengers

Year	Scheduled flights	Non-scheduled flights (charter)	General aviation	Total
1980	6,859,629	1,072,471	59,944	7,992,044
1990	11,215,214	1,479,293	75,250	12,769,757
1991	10,541,653	1,608,800	75,089	12,225,542
1992	11,229,546	1,819,392	70,335	13,119,273
1993	11,652,100	1,859,253	62,732	13,574,085
1994	12,449,367	2,057,498	66,469	14,573,334
1995	12,999,887	2,340,562	54,957	15,395,406
1996	13,998,296	2,227,745	50,658	16,276,699
1997	15,827,572	2,440,950	49,838	18,318,360
1998	17,142,169	2,134,613	49,807	19,326,589
1999	18,876,843	1,998,468	50,356	20,925,667
2000	20,551,503	2,075,890	47,973	22,675,366
2001	18,916,434	2,054,307	42,130	21,012,871
2002	15,904,090	1,997,983	45,985	17,948,058
2003	15,200,005	1,776,855	48,077	17,024,937
2004	15,313,073	1,893,669	46,164	17,252,906
2005	16,284,752	1,550,539	49,361	17,884,652

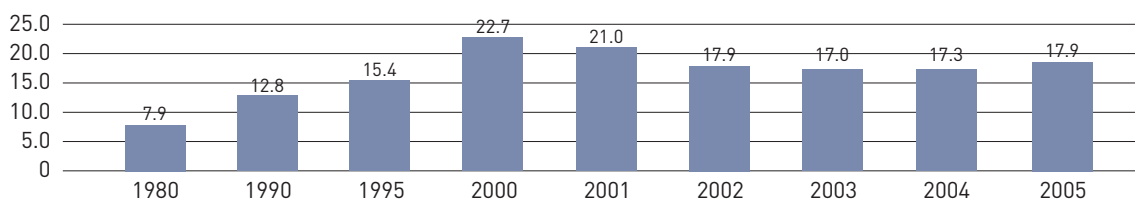
Aircraft movements

Year	Scheduled flights	Non-scheduled flights (charter)	General aviation + others	Total
1980	107,884	10,639	42,606	161,129
1990	158,360	13,816	47,685	219,861
1991	159,875	15,574	45,946	221,395
1992	173,325	18,188	41,518	233,031
1993	178,812	18,252	36,820	233,884
1994	184,105	19,895	38,498	242,498
1995	186,735	22,299	35,470	244,504
1996	203,214	21,218	33,599	258,031
1997	218,726	22,739	34,666	276,131
1998	231,738	19,686	36,461	287,885
1999	252,018	18,088	36,076	306,182
2000	271,838	19,029	34,755	325,622
2001	256,244	17,810	35,176	309,230
2002	230,699	17,021	34,434	282,154
2003	220,130	14,497	34,765	269,392
2004	216,224	14,862	35,574	266,660
2005	217,494	12,486	37,383	267,363

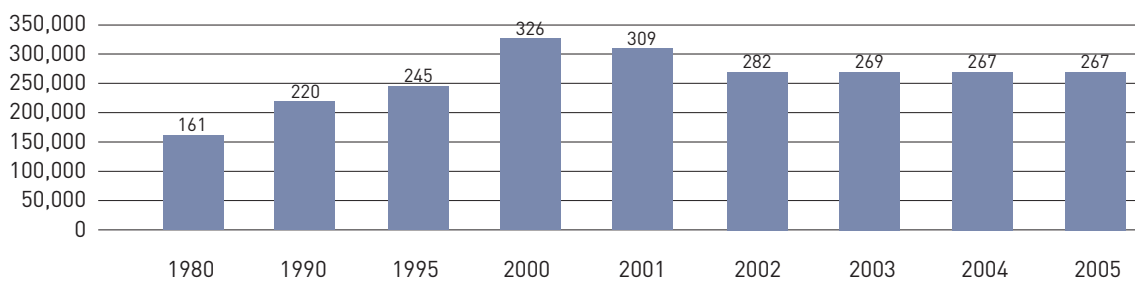
Freight in tonnes

Year	Air freight	Road freight	Total
1980	156,751	26,876	183,627
1990	255,513	70,285	325,798
1991	248,452	70,969	319,421
1992	271,475	73,643	345,118
1993	291,623	84,908	376,531
1994	319,968	100,300	420,268
1995	326,928	112,366	439,294
1996	322,541	123,099	445,640
1997	335,028	137,245	472,273
1998	329,842	143,862	473,704
1999	356,643	138,447	495,090
2000	395,142	150,281	545,423
2001	352,607	140,265	492,872
2002	309,724	112,087	421,811
2003	283,831	106,012	389,843
2004	257,601	105,936	363,537
2005	266,400	106,015	372,415

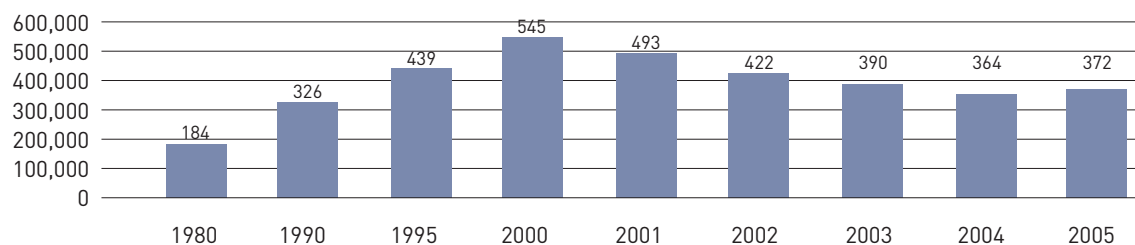
Passengers in millions



Movements in thousands



Freight in tonnes





Adrian Alvarez
Control system operator

Destinations



**Direct services from Zurich, 2005
scheduled flights**

Europe	Klagenfurt	Pristina	Near/Middle East
Alicante	Cologne	Reykjavic	Amman
Amsterdam	Copenhagen	Rome Fiumicino	Doha
Ankara	Lamezia	Salzburg	Dubai
Antalya	Cracow	Santiago de Compostela	Jeddah
Athens	Larnaca	Sarajevo	Muscat
Augsburg	Linz	Sion	Riyadh
Balaton	Lisbon	Skopje	Tel Aviv
Barcelona	Ljubliana	Sofia	
Basel	London (Heathrow)	Split	Far East / Australia
Belgrade	London (Gatwick)	Stockholm	Bangkok
Berlin (Tegel)	London (City)	St. Petersburg	Bombay
Birmingham	London (Luton)	Stuttgart	Colombo
Bologna	Lugano	Thessaloniki	Delhi
Bratislava	Luxembourg	Tirana	Hong Kong
Bremen	Lyons	Tivat	Karachi
Brindisi	Madrid	Valencia	Kuala Lumpur
Bristol	Milan	Venice	Seoul
Brussels	Malaga	Warsaw	Singapore
Budapest	Malta	Vienna	Tashkent
Bucharest	Manchester	Zadar	Tokyo
Catania	Manston	Zagreb	
Dresden	Moscow Domodedovo		Latin America
Dortmund	Moskau Sheremetyevo	Africa	Buenos Aires
Dublin	Munich	Benghazi	Varadero
Duesseldorf	Muenster/Osnabrueck	Casablanca	São Paulo
Florence	Naples	Dar es Saalam	
Frankfurt	Nis	Djerba	North America
Funchal	Nice	Douala	Atlanta
Geneva	Nuremberg	Johannesburg	Boston
Glasgow	Ohrid	Cairo	Chicago
Gothenburg	Oslo	Mahe	Dallas
Graz	Palermo	Malabo	Los Angeles
Hamburg	Palma de Mallorca	Marrakesh	Miami
Hanover	Paris (CDG)	Mauritius	Montreal
Helsinki	Paris (ORY)	Nairobi	New York
Istanbul	Porto	Tripoli	Newark
Izmir	Podgorica	Tunis	San Francisco
Kiev	Ponta Delgada	Yaounde	Toronto
Kittila	Prague		Washington

Direct services from Zurich Airport

	Cities	Countries
Europe	100	35
Africa	15	11
Near/Middle East	7	6
Far East/Australia	11	10
North America	12	2
Latin America	3	3
Total	148	67





**Consolidated financial statements
according to IFRS**

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Notes

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Consolidated income statement for 2005 and 2004
(according to IFRS)

(CHF thousand)	Notes	2005	2004
Revenue from goods and services			
– Revenue from aviation operations ¹⁾		418,877	411,754
– Revenue from non-aviation operations ¹⁾		283,352	271,932
Total revenue	(1)	702,229	683,686
Depreciation and amortisation	(7)	(188,921)	(190,118)
Personnel expenses ²⁾	(2)	(139,895)	(132,561)
Police and security		(78,336)	(73,189)
Maintenance and material		(49,232)	(45,538)
Sales, marketing, administration		(32,592)	(31,763)
Energy and waste		(21,135)	(19,894)
Other operating expenses	(3)	(21,113)	(21,285)
Other expenses/income, net	(4)	4,021	(4,482)
Profit from operations		175,026	164,856
Financial costs ¹⁾	(5)	(109,509)	(110,171)
Financial income	(5)	9,696	3,001
Income from associates		239	384
Profit before tax		75,452	58,070
Income taxes ^{1) + 2)}	(6)	(16,329)	(5,802)
Profit		59,123	52,268
Profit attributable to:			
shareholders of Flughafen Zürich AG		59,123	52,406
minority interests		0	(138)
Basic earnings per share (in Swiss francs) ^{1) + 2)}	(13)	12.08	10.97
Diluted earnings per share (in Swiss francs) ^{1) + 2)}	(13)	12.06	10.96

¹⁾ The figure for 2004 reflects the effect of the change in accounting policies, aircraft noise (see "Accounting policies", "Change in accounting policies").

²⁾ The figure for 2004 reflects the effect of the change in accounting policies, IFRS 2 Share-based payment (see "Accounting policies", "Change in accounting policies").

The total effect of the changes in accounting policies amounts to 7.35 Swiss francs per share.

**Consolidated balance sheet as of 31 December 2005 and 31 December 2004
(according to IFRS)**

(CHF thousand)	Notes	31.12.2005	31.12.2004
Assets			
Land	(7)	112,326	112,267
Buildings, engineering structures	(7)	2,530,474	2,594,401
Facilities in leasing	(7)	75,113	80,154
Projects in progress	(7)	39,908	65,527
Projects in progress in leasing	(7)	1,181	206
Movables	(7)	98,081	89,999
Total property, plant and equipment	(7)	2,857,083	2,942,554
Intangible assets	(7)	24,958	27,677
Financial assets	(8)	16,821	15,968
Investments in associates	(9)	6,103	408
Non-current assets		2,904,965	2,986,607
Inventories		3,198	3,665
Trade receivables	(10)	94,823	87,243
Other receivables and prepaid expenses	(11)	19,771	28,791
Current tax assets		355	0
Cash and cash equivalents	(12)	36,737	45,790
Current assets		154,884	165,489
Total assets		3,059,849	3,152,096
Equity and liabilities			
Share capital	(13)	245,615	245,615
Own shares	(13)	(1,735)	(2,328)
Capital reserves		338,535	337,844
Hedging reserves, net		(112,874)	(107,632)
Translation reserves		(168)	(877)
Other retained earnings ^{1) + 2)}		336,626	277,504
Equity of shareholders of Flughafen Zürich AG		805,999	750,126
Minority interests		0	6,320
Total equity		805,999	756,446
Debentures and non-current loans	(14)	1,565,813	1,596,271
Non-current provisions for sound insulation and formal expropriations ¹⁾	(15)	137,091	142,359
Lease liabilities	(14)	73,721	77,027
Deferred tax liabilities ^{1) + 2)}	(17)	44,572	32,868
Retirement benefit plans	(18)	1,804	1,440
Other non-current financial liabilities	(14)	0	632
Non-current liabilities		1,823,001	1,850,597
Trade payables		30,005	28,332
Current financial liabilities	(14)	139,262	124,673
Other current debt, accruals and deferrals	(19)	261,582	387,896
Current tax liabilities		0	4,152
Current liabilities		430,849	545,053
Total liabilities		2,253,850	2,395,650
Total equity and liabilities		3,059,849	3,152,096

¹⁾ The figure for 2004 reflects the effect of the change in accounting policies, aircraft noise (see "Accounting policies", "Change in accounting policies").

²⁾ The figure for 2004 reflects the effect of the change in accounting policies, IFRS 2 Share-based payment (see "Accounting policies", "Change in accounting policies").

Consolidated statement of changes in equity (according to IFRS)

(CHF thousand)	Share capital	Own shares	Capital reserves	Hedging reserves, net	Translation reserve	Other retained earnings	Equity of shareholders of Flughafen Zürich AG	Minority interests	Total equity
Balance at 31.12.2003	245,615	(24,999)	335,276	(78,372)	(336)	281,235	758,419	6,053	764,472
Change in accounting policy:									
IFRS 2: Share-based payment (net, after tax) for 2002 and 2003 ¹⁾						(648)	(648)		(648)
Change in accounting policy:									
aircraft noise (net, after tax) for the period 2000 to 2003 ¹⁾						(55,138)	(55,138)		(55,138)
Balance at 1. 1. 2004 after restatement	245,615	(24,999)	335,276	(78,372)	(336)	225,449	702,633	6,053	708,686
Adjustment of cross currency interest rate swaps to fair value ²⁾				(100,564)			(100,564)		(100,564)
Cross currency interest rate swaps – transfer to income statement ²⁾				73,340			73,340		73,340
Change in tax rate				(2,036)		(352)	(2,388)		(2,388)
Foreign exchange differences					(541)		(541)	405	(136)
Income and expense recognised directly in equity	0	0	0	(29,260)	(541)	(352)	(30,153)	405	(29,748)
Profit						52,406	52,406	(138)	52,268
Total recognised income and expense	0	0	0	(29,260)	(541)	52,054	22,254	267	22,521
Purchase of own shares		(27,295)					(27,295)		(27,295)
Sale of own shares		49,198	2,469				51,667		51,667
Distribution of own shares		768	(768)				0		0
Share-based payments			866				866		866
Balance at 31.12.2004	245,615	(2,328)	337,844	(107,632)	(877)	277,504	750,126	6,320	756,446
Adjustment of cross currency interest rate swaps to fair value ²⁾				83,713			83,713		83,713
Cross currency interest rate swaps – transfer to income statement ²⁾				(88,955)			(88,955)		(88,955)
Foreign exchange differences					248		248		248
Effect of partial sale of subsidiary ³⁾					462		462		462
Income and expense charged directly in equity	0	0	0	(5,242)	710	0	(4,533)	0	(4,533)
Profit						59,123	59,123		59,123
Total recognised income and expense	0	0	0	(5,242)	710	59,123	54,590	0	54,590
Effect of partial sale of subsidiary ³⁾								(6,320)	(6,320)
Purchase of own shares		(7,982)					(7,982)		(7,982)
Sale of own shares		7,409	508				7,917		7,917
Distribution of own shares		1,166	(631)				535		535
Share-based payments			814				814		814
Balance at 31.12.2005	245,615	(1,735)	338,535	(112,874)	(168)	336,626	805,999	0	805,999

Note: when adding up rounded-up or rounded-down sums, it is possible that minor discrepancies may occur.

¹⁾ See "Accounting policies", "Change in accounting policies".

²⁾ See "Notes to consolidated financial statements", note 5, "Financial result" and note 14, "Financial liabilities".

³⁾ See "Notes to consolidated financial statements", "Changes in the consolidation structure".

**Consolidated cash flow statement
(according to IFRS)**

(CHF thousand)	2005	2004
Profit from operations	175,026	164,856
Depreciation and amortisation of		
– Buildings and engineering structures	160,102	158,325
– Movable	15,952	15,234
– Intangible assets	11,077	9,724
– Goodwill	179	6,051
– Facilities in leasing	5,210	5,126
Dissolution of government subsidies		
– Buildings and engineering structures	(3,599)	(4,340)
– Movable	0	(2)
Losses from disposals of property, plant and equipment (net)	2,325	400
Share-based payments	1,349	866
Increase (–)/decrease (+) in current assets, excluding cash and cash equivalents	360	(5,691)
Increase (+)/decrease (–) in current debt excluding current financial liabilities	(28,100)	(27,128)
Increase (+)/decrease (–) in provisions for retirement benefit plans	364	(2,559)
Increase (+)/decrease (–) in other non-current borrowings	0	97
Total expenses for sound insulation and formal expropriations	(10,962)	(13,122)
Income taxes paid	(5,998)	(379)
Cash flow from operations	323,285	307,458
<i>of which from noise charges</i>	<i>39,372</i>	<i>36,494</i>
<i>Total revenue from noise charges</i>	<i>50,334</i>	<i>49,616</i>
<i>Total expenses for sound insulation and formal expropriations</i>	<i>(10,962)</i>	<i>(13,122)</i>
Investments in property, plant and equipment		
– Projects in progress	(119,829)	(182,218)
Disposals of property, plant and equipment		
– Buildings and engineering structures	2,017	1,019
– Movable	0	294
– Land	927	0
Disposals of intangible assets	0	3
Cash flow from effect of partial sale of subsidiary	(850)	0
Capital increase in associate	(4,354)	(2)
Investments in financial assets	(889)	(15,241)
Disposals of financial assets	463	281
Interest received	998	247
Cash flow from investing activities	(121,517)	(195,617)
Redemption of outstanding debentures	(82,000)	(125,000)
Repayment of liabilities towards banks arising from US car park lease	(44,359)	0
Repayment of current financial liabilities	0	(2,002)
Repayment of loan from Zurich Airport Staff Pension Fund	0	(5,500)
Changes in other non-current financial liabilities	0	(42)
Purchase of own shares	(7,982)	(27,295)
Sale of own shares	7,917	51,667
Interest paid	(85,078)	(105,906)
Capitalised borrowing costs	681	7,223
Cash flow from financing activities	(210,821)	(206,855)
Decrease in cash and cash equivalents	(9,053)	(95,014)
Balance at beginning of financial year	45,790	140,804
Decrease in cash and cash equivalents	(9,053)	(95,014)
Balance at end of financial year	36,737	45,790
Composition of cash and cash equivalents		
Cash on hand, at banks and in postal cheque accounts	12,497	27,693
Cash deposits maturing within 90 days	21,000	0
Cash collateral	3,240	18,097
Balance at end of financial year	36,737	45,790

Notes

Segment reporting for 2005 and 2004 (according to IFRS)

	Aviation (flight operations)		Aviation (aircraft noise)		Non- Aviation		Eliminations		Consolidated	
(CHF million)	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenue from third parties	368.5	362.1	50.3	49.6	283.4	271.9			702.2	683.7
Inter-segment revenue	10.6	10.0			143.6	124.2	(154.2)	(134.2)	0.0	0.0
Total revenue	379.2	372.2	50.3	49.6	426.9	396.1	(154.2)	(134.2)	702.2	683.7
Result										
Segment result	(39.4)	(8.3)	46.2	46.4	168.2	126.9			175.0	164.9
Unallocated expenses									0.0	0.0
Profit from operations									175.0	164.9
Financial costs	(1.8)	(1.7)	(5.7)	(6.0)	(14.6)	(14.6)			(22.1)	(22.3)
Unallocated financial costs									(87.4)	(87.9)
Unallocated financial income									9.7	3.0
Income from associates	0.2	0.4	0.0	0.0	0.0	0.0			0.2	0.4
Unallocated income taxes									(16.3)	(5.8)
Profit									59.1	52.4
Other Information										
Tangible and intangible assets	932.9	971.8	1.5	1.6	1,947.7	1,996.8			2,882.1	2,970.2
Financial assets	16.8	16.0							16.8	16.0
Investments in associates	6.1	0.4							6.1	0.4
Unallocated assets									154.9	165.5
Consolidated assets									3,059.9	3,152.1
Segment liabilities	78.3	81.4	137.1	142.4	346.7	333.9			562.1	557.7
Unallocated liabilities									1,691.8	1,838.0
Total liabilities									2,253.9	2,395.7
Capital expenditure	37.7	28.5			86.7	171.6			124.4	200.1
Depreciation and amortisation	55.0	49.1	0.1	0.1	133.8	140.9			188.9	190.1
Other non-cash expenses			5.7	6.0					5.7	6.0
Number of employees (full-time positions) as of 31 December	571	602	9	9	682	678			1,262	1,289

Note: when adding up rounded-up or rounded-down sums, it is possible that minor discrepancies may occur.

Accounting policies

General remarks

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. They have been prepared under the historical cost convention, with the exception of derivative financial instruments and the valuation of associates.

The individual 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 IFRS means that the Management Board has 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 should subsequently prove to deviate from the actual circumstances, the estimates and assumptions originally made are revised in the financial year in which the circumstances changed.

Judgements made by the Management Board in its application of IFRS that have a significant effect on the consolidated financial statements, and estimates with a significant risk of adjustment in the following financial year, are discussed in "Significant estimates and assumptions in the application of accounting policies" (see also note 7, "Changes in non-current assets").

Change in accounting policies

With the exception of the changes noted below, the accounting policies were the same as those applied in the prior year. In 2003, the International Accounting Standards Board (IASB) published a revised version of IAS 32, "Financial Instruments: Disclosure and Presentation", a revised version of IAS 39, "Financial Instruments: Recognition and Measurement", and a revision of 13 existing standards. In 2004, the IASB published IFRS 2, "Share-based Payment", IFRS 3, "Business Combinations", IFRS 4, "Insurance Contracts", IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations", revised versions of IAS 36, "Impairment of Assets" and IAS 38, "Intangible

Assets", plus further amendments to IAS 39. IFRS 3, IAS 36 and IAS 38 already had to be applied from 31 March 2004 onwards for acquisitions taking place on or after this date. All other standards have to be used for the first time in the 2005 annual report. With the exception of those cited below, the standards referred to above do not have a significant impact on the financial position, results of operations and cash flows of Flughafen Zürich AG.

IFRS 2: Share-based Payment

IFRS 2 has to be applied for all share-based payments. This applies to Flughafen Zürich AG for its issue of shares to employees as part of its bonus and staff participation programme. The fair value of such shares is now recognised as an expense with a corresponding increase in equity. The fair value of the shares is measured at grant date and spread over the vesting period. Up to 31 December 2004, the cost of shares issued within the scope of the bonus and staff participation programme was charged to the capital reserves and did not affect the income statement. All shares granted prior to 1 January 2005 were already vested as of this date, and therefore are not in the scope of IFRS 2. The restatement of 2004 was made voluntarily for comparison purposes. Personnel expenses include the effect arising from the adoption of IFRS 2 amounting to 0.814 million Swiss francs in 2005 and 0.866 million Swiss francs for the 2004 financial year. Furthermore, following the introduction of IFRS 2 on 1 January 2004, a liability was recognised for a special bonus programme in the amount of 0.648 million Swiss francs and charged to retained earnings. Additional personnel expenses in the amount of 0.244 million Swiss francs were charged to the 2004 income statement.

IFRS 3: Business Combinations

IFRS 3 no longer allows amortisation of goodwill. Goodwill must now be tested for impairment annually. The standard has to be applied prospectively. As of 1 January 2005, goodwill is no longer amortised (the goodwill arising from the privatisation of the airport on 1 January 2000 was fully amortised as of 31 December 2004 [goodwill, 24.8 million Swiss francs; accumulated amortisation, 24.8 million Swiss francs], see also "Notes to consolidated financial statements", note 7, "Changes in non-current assets").

IAS 1 (revised): Presentation of Financial Statements

Minority interests in the net assets of a subsidiary now have to be presented within equity and not between shareholders' equity and liabilities, and minority interests in the result of a subsidiary now have to be presented separately in the income statement as "Profit or loss attributable to minority interests". The revised standard requires retrospective application.

IAS 38 (revised): Intangible Assets

In connection with clarifications concerning sustainable solutions to noise-related problems, the accounting for related expenses and revenue from charges was changed. On the basis of a legal expertise prepared at the request of Flughafen Zürich AG by the Swiss Federal Office for Justice, the previous practice of accounting for the noise-related expenses and charges in a special noise fund (with no impact on the income statement) has changed. The legal expertise concluded that noise charges should be regarded as part of the overall airport charges and not as individual, separable charges. The noise fund has been de-recognised from the balance sheet and is now disclosed separately in the notes. The legal expertise concluded that noise charges should be regarded as part of the overall airport charges and not as individual, separable charges. In view of this legal expertise, the policy of accounting for aircraft noise was revised and amended together with the auditors and external experts. Revenue from noise charges and the costs for sound insulation

measures, plus operating costs arising in connection with aircraft noise, are recognised in the income statement. Compensation for formal expropriations is capitalised as an intangible asset relating to the right of formal expropriation originally assigned to Flughafen Zürich AG in accordance with IAS 38.9-17, and amortised using the straight-line method over the remaining duration of the operating licence (i.e. up to 2051).

The new accounting policies were applied retrospectively as of 1 January 2004, at which time a provision for the constructive obligation for sound insulation measures was recognised at the present value of expected future payments and charged to retained earnings. At the same time, the balance of the Airport of Zurich Noise Fund (AZNF) was de-recognised and charged to retained earnings. The 2004 profit was restated to reflect the noise charges and associated operating costs now recognised as an expense, as well as the effect of discounting.

The consolidated income statement for 2004 was restated as follows:

(CHF thousand)	2004
Income from aviation operations	
Income from aviation operations as already reported	362,138
Change in accounting policy: aircraft noise	49,616
Restated income from aviation operations	411,754
(CHF thousand)	2004
Income from non-aviation operations	
Income from non-aviation operations as already reported	275,175
Change in accounting policy: aircraft noise	(3,243)
Restated income from non-aviation operations	271,932
(CHF thousand)	2004
Total financial result	
Financial result as already reported	(106,574)
Change in accounting policy: aircraft noise	(596)
Restated financial result	(107,170)
(CHF thousand)	2004
Income taxes	
Income taxes as already reported	3,760
Change in accounting policy: IFRS 2: Share-based payment	51
Change in accounting policy: aircraft noise	(9,613)
Restated income taxes	(5,802)

The consolidated balance sheets as of 1 January 2004 and 31 December 2004 were restated as follows:

(CHF thousand)	2004
Retained earnings	
Retained earnings as of 31 December 2003 as already reported	281,235
Change in accounting policy: IFRS 2: Share-based payment (net, after tax) for 2002 and 2003	(648)
Change in accounting policy: aircraft noise (net, after tax) for the period 2000 to 2003 ¹⁾	(55,138)
Balance sheet as of 1 January 2004 after restatement	225,449
Change in tax rate	(352)
2004 profit as already reported	17,301
Change in accounting policy: IFRS 2: Share-based payment	(1,059)
Change in accounting policy: aircraft noise	36,164
2004 profit after restatement	52,406
Restated balance sheet as of 31 December 2004	277,504
¹⁾ De-recognition of Airport of Zurich Noise Fund	79,706
Recognised non-current provision for sound insulation and formal expropriations	(149,501)
Change/effect on deferred taxes	14,657
Total change in accounting policy: aircraft noise	(55,138)

(CHF thousand)	2004
Airport Zurich Noise Fund	
Airport of Zurich Noise Fund as of 31 December 2004 as already reported	118,341
Change in accounting policy: aircraft noise	(118,341)
Restated Airport of Zurich Noise Fund as of 31 December 2004	0

(CHF thousand)	2004
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Non-current provisions for sound insulation and formal expropriations

Non-current provisions for sound insulation and formal expropriations as of 31 December 2004 as already reported	0
Change in accounting policy: aircraft noise	142,359
Restated non-current provisions for sound insulation and formal expropriations as of 31 December 2004	142,359

(CHF thousand)	2004
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Deferred tax liabilities

Deferred tax liabilities as of 31 December 2004 as already reported	38,156
Change in accounting policy: IFRS 2: Share-based payment	[244]
Change in accounting policy: aircraft noise	[5,044]
Restated deferred tax liabilities as of 31 December 2004	32,868

Introduction of new standards in 2006 and 2007

The following standards and interpretations were issued as of the date on which the 2005 consolidated financial statements were authorised for issue, but will only become effective at a later date. They have therefore not been applied in these consolidated financial statements. Their impacts on the consolidated financial statements of Flughafen Zürich AG have not yet been systematically analysed. This means that the expected impacts indicated at the foot of the table below merely take the form of an initial assessment on the part of the Management Board.

Standard / interpretation		Effective date	Planned application by Flughafen Zürich AG
Amendments to IAS 19 – Employee benefits:			
actuarial gains and losses, group plans and disclosure	**	1 January 2006	2006 financial year
Amendment to IAS 21 – The effects of changes in foreign exchange rates	*	1 January 2006	2006 financial year
Amendments to IAS 39 – Financial instruments: recognition and measurement			
– Cash flow hedge accounting of forecast intragroup transactions	*	1 January 2006	2006 financial year
– The fair value option	***	1 January 2006	2006 financial year
– Financial guarantee contracts	***	1 January 2006	2006 financial year
IFRS 6 – Exploration for and evaluation of mineral resources	*	1 January 2006	2006 financial year
IFRIC 4 – Determining whether an arrangement contains a lease	***	1 January 2006	2006 financial year
IFRIC 6 – Liabilities arising from participating in a specific market – waste electrical and electronic equipment	*	1 December 2005	2006 financial year
IFRIC 8 – Scope of IFRS 2	*	1 May 2006	2006 financial year
IFRIC 7 – Applying the restatement approach under IAS 29 – Financial reporting in hyperinflationary economies	*	1 March 2006	2007 financial year
IFRS 7 – Financial instruments: Disclosures	**	1 January 2007	2007 financial year
Amendments to IAS 1 – Presentation of financial statements: capital disclosures	**	1 January 2007	2007 financial year

* No significant impacts on the consolidated financial statements of Flughafen Zürich AG are expected.

** Mainly additional disclosures are expected in the consolidated financial statements of Flughafen Zürich AG.

*** The impacts on the consolidated financial statements of Flughafen Zürich AG cannot yet be determined with sufficient reliability.

Scope and methods of consolidation

The consolidated financial statements comprise Flughafen Zürich AG and all companies in Switzerland and abroad that are directly or indirectly under its control. Here, the term “control” means the power to govern financial and operating policies of an entity in order to obtain corresponding benefits. This is the case if the group holds more than 50 percent of the voting rights of a company or if it controls that company on a contractual or de facto basis.

These companies have been fully consolidated. All assets and liabilities have been 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 have been eliminated on consolidation. All business combinations have been accounted for using the purchase method. This means that the assets, liabilities and contingent liabilities of each acquired subsidiary have been recognised at fair value at the date of acquisition, and the difference between purchase price and the group’s share of the fair values of the acquired net assets is recognised as goodwill. Goodwill is not amortised, but is tested for impairment annually. Subsidiaries that are acquired or disposed of in the course of the year are consolidated, or excluded from consolidation, with effect from the date control commences or control ceases respectively.

Foreign currency

For consolidation purposes, all assets and liabilities reported in the balance sheets of companies within the group are translated into Swiss francs at the year-end exchange rate. Income statements and cash flow statements are translated at the average exchange rate for the period. Exchange differences that arise on translation are recognised directly in equity. Transactions in foreign currency are converted 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 balance sheet date. Exchange differences that arise from the settlement or translation of foreign currency monetary items are recognised in the income statement.

Reporting of revenue

Revenue is reported in the period in which the service is provided.

Leases

Finance leases: Lease agreements that transfer all the risks and benefits of ownership of the leased asset to the company concerned are classified as finance leases. Lease payments are allocated between an interest expense and a reduction of a 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 over the period of the lease.

Total financial result

The financial result comprises interest payments on borrowings calculated using the effective interest rate method (excluding borrowing costs relating to buildings under construction), the unwinding of the effect of discounting on provisions, interest income, dividend income, foreign currency gains and losses and gains on / losses from hedging instruments recognised in the income statement.

Interest income is recognised in the income statement using the effective interest method.

Dividend income is recognised in the financial statements at due date.

Borrowing costs arising during the construction of movables, buildings and engineering structures are capitalised up until completion of the asset in question.

Land

Land is stated at cost and is not depreciated.

The entire airport site of 8,150,100 square metres is divided into individual plots of land on the basis of an internal grid. Each plot is valued separately. In addition to various criteria specific to the airport, e.g. potential utilisation density, the development of land prices in the region was also taken into account for valuation purposes in connection with the formation of Flughafen Zürich AG as of 1 January 2000. Land that has already been developed or is classified as developable and is comparable to industrial real estate constitutes the highest category, followed by areas required for actual flight operations (runways, taxiways, aprons, etc.). A third category includes undeveloped agricultural land and the extended nature conservation area. On the basis of the internal grid, land values range from 675 Swiss francs per square metre for intensive use, down to 2 Swiss francs per square metre for plots reserved for nature conservation.

The overall value of these plots of land is shown in the balance sheet as 100 million Swiss francs.

Property, plant and equipment

Property, plant and equipment are stated at acquisition or construction cost, less accumulated depreciation and accumulated impairment losses. The production costs of buildings include 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 completion of the asset in question. The property, plant and equipment contributed by the Canton of Zurich on 31 December 1999 contain no overheads and borrowing costs, since restatement would entail undue cost and effort. Since 1 January 2000, borrowing costs and overheads relating to all assets under construction have been capitalised. Components of property, plant and equipment with different periods of useful life are reported individually and depreciated separately. Expansion and replacement expenditure is capitalised if it is probable that Flughafen Zürich AG will gain an economic benefit from it in the future. Maintenance and renovation expenditure are charged to the income statement when incurred.

Assets that are acquired under finance leases are recognised at the present value of the future lease payments or, if lower, the fair value.

A corresponding lease liability is recognised as a liability.

The leased assets are depreciated over the estimated period of 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 40 years
Engineering structures	maximum 30 years
Tunnels and bridges	maximum 50 years
Equipment and vehicles	3 to 20 years

Government subsidies and grants

The reported government subsidies and grants concern those that were paid out prior to 1989. Grants and subsidies related to investments are recognised as income over the useful life of each asset, and 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 category of property, plant and equipment. Assets that are already in use and are classified as "Projects in progress" are depreciated from the time they are brought into use. From the date of completion of an asset, no further expenditure on the asset or related borrowing costs is capitalised.

Intangible assets and goodwill

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. The 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 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. This right is capitalised as an intangible asset. Capitalisation takes place at the time at which the probable total costs 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 capitalisation may vary from region to region around the airport. At the same time as an intangible asset is recognised at present value of the expected future payments, an equal amount is recognised as a provision. Any future changes in the carrying amount of the provision will be accounted for as an adjustment to the intangible asset. The intangible asset is amortised using the straight-line method over the remaining duration of the operating licence (i.e. until 2051).

Goodwill arising from acquisitions is not amortised but tested for impairment annually.

Costs directly associated with the development of computer software are capitalised, provided it is probable that the software will be successfully completed and is expected to result in future economic benefits. The useful life of software is three to five years.

Flughafen Zürich AG does not hold any intangible assets with an indefinite useful life.

Financial assets

Financial assets mainly include loans that are stated at cost, less impairment losses.

Investments in associates and joint ventures

Associates are companies where the group is able to exercise significant influence, but not control, over the financial and operating policies (normally where the group is entitled to 20 to 50 percent of the voting rights). The consolidated financial statements include the group's share of the recognised gains and losses of associates on an equity accounted basis.

Investments in associates where the group is entitled to less than 20 percent 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.

Interests in joint ventures are included in the consolidated financial statements by applying the equity method. Joint ventures are companies over whose activities the group has joint control established by contractual agreements.

Derivative financial instruments

Derivative financial instruments are used exclusively for the purpose of hedging interest rate and currency risks, and are reported under other receivables or other current debt. They are carried at fair value in accordance with IAS 39. Changes in the fair value of derivative instruments which fulfil the requirements for cash flow hedges are booked directly to the hedging reserves. As soon as the hedged transaction has occurred, the accumulated, non-realised gains and losses are charged to the income statement. For all other derivative instruments, changes in fair value are recognised in the income statement.

Inventories

Inventories mainly comprise fuel inventories and parts 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 their nominal value less impairment losses. For information concerning impairment, please refer to "Accounting policies", "Impairment".

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, in postal cheque accounts and at banks (including collateral) with an original maturity of 90 days or less.

Impairment

The group assesses every year if there are any indicators that its assets, other than inventories and deferred taxes (following special accounting rules), are impaired. If there is any indicator that an asset may be impaired, the recoverable amount of the asset is calculated (impairment test). For goodwill, other intangible assets with indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is calculated annually, even if there are no indicators that they may be impaired.

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 of receivables and loans is equivalent to the present value of the estimated future cash flows.

The recoverable amount of other assets is the higher of the fair value less costs to sell and value in use. To determine the value in use, the estimated future cash flows are discounted. Here, 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 receivables and loans are reversed if the amount of the impairment loss decreases and the decrease can be related to an event that occurred in a period after the impairment was recognised.

Impairment losses on goodwill are not reversed. Impairment losses on other assets are reversed if indicators exist that 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.

Total equity**Share capital**

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

Own shares

Acquisition costs (purchase price and directly attributable transaction costs) of own shares are 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 cost less transaction costs. The difference between the amount initially recognised and the redemption amount is amortised over the duration of the debenture 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 balance sheet 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 the constructive obligation for **sound insulation 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 and goodwill").

Retirement benefit plans

a) Main benefit plan of "Beamtenversicherungskasse of the Canton of Zurich" (BVK)

Since 1 January 2000, the entire workforce of Flughafen Zürich AG has been affiliated to the "Beamtenversicherungskasse des Kantons Zürich" (BVK) pension fund. Staff actively employed and pensioners of the former Flughafen Direktion Zürich were already members of this pension fund, whilst those employees taken over by Flughafen Zürich AG from Flughafen Immobilien Gesellschaft transferred to the BVK on 1 January 2000. The BVK is a pension fund comprising approximately 60,000

employees of the local and cantonal governments of Zurich, other public and semi-public corporations and institutions and non-profit organisations domiciled in the Canton of Zurich, and companies in which the government holds a major interest. The liabilities of the BVK were funded at a level of 97.65 percent as of 31 December 2005 as calculated according to the applicable regulations (Article 44 BVV2).

Up to the end of 2002, the BVK retirement benefit plan was regarded as a defined benefit plan. Owing to a lack of data from the BVK, Flughafen Zürich AG treated it as a defined contribution plan in accordance with IAS 19, paragraph 30 and it was not reported by the projected unit credit method in the balance sheet. In 2003, the contract between Flughafen Zürich AG and the BVK was modified so that Flughafen Zürich AG will not be required to pay any additional contributions to cover any shortfall in funding. A breach of this provision would give Flughafen Zürich AG the right to terminate the contract without having to provide financial compensation for any actuarial funding deficit. The Board of Directors of Flughafen Zürich AG has declared that under no circumstances will it pay extra contributions to cover funding deficits in the benefit plan, although it is prepared to do whatever possible to uphold the contract with BVK. The contractual modifications noted above and the declarations by the Board of Directors mean that no actuarial or investment risk associated with the benefit plan at present can be transferred to Flughafen Zürich AG as employer. Given this situation and the fact that the BVK is a dependent entity under public cantonal law whose continuation is secured, the retirement benefit plan is treated as a defined contribution plan in accordance with IAS 19.25. This means that pension obligation is limited to the contributions paid by Flughafen Zürich AG to the BVK, which are recognised as an expense in the income statement as incurred.

Should the Canton of Zurich cease to be the main shareholder in Flughafen Zürich AG and the Zurich Cantonal Airport Law accordingly be changed, Flughafen Zürich AG would be forced under the BVK statutes to seek an alternative pension fund solution. If an actuarial funding deficit should occur under these circumstances, Flughafen Zürich AG could be required to provide additional funds, which would be charged to the income statement at the time any such change in pension fund provider were to become effective.

b) Other benefit plans

The following benefit schemes are also maintained by Flughafen Zürich AG:

- Agreement with Zurich Insurance Company offering benefits to the pensioners from 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 future benefits.
- Special plan agreed with the BVK for providing compensation for early retirement. This is a defined benefit plan. In this plan, the present value of the expected claims (defined benefit obligation) is calculated by the projected unit credit method and set aside as a reserve. Pension costs related to work performed during the reporting period (current service cost) are charged to the income statement. Pension costs associated with work performed in the past, which are due to new or improved benefits (past service cost) are reported on a straight-line basis as part of pension costs until the benefits become vested. Actuarial and investment losses and gains resulting from periodic recalculations are shown in the financial statements on a straight-line basis over the average remaining service period, insofar as they do not exceed 10 percent of the provisions for retirement benefits.

Share-based payments

Flughafen Zürich AG issues shares to its employees as part of its bonus and staff participation programme. The fair value of the shares is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the vesting period.

Income taxes

Income taxes comprise current and deferred taxes. They are recognised in the income statement, with the exception of taxes on transactions recognised directly in equity. In these cases, taxes are also recognised in equity.

Current taxes comprise the expected taxes to be paid on the taxable result, using tax rates substantively enacted at balance sheet date. Deferred taxes are recognised on temporary differences between tax values and book values using the balance sheet liability method. The following temporary differences are not provided for: goodwill not deductible for tax purposes, 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 manner of realisation or settlement of the assets and liabilities concerned using tax rates that are enacted or substantively enacted at balance sheet date.

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

Non-current assets held for sale

Non-current assets and groups of assets, including liabilities directly associated with those assets (disposal groups) are classified as “held for sale” and recognised separately in the balance sheet under current assets or liabilities if their carrying amount will not be recovered from continuing use, but rather through a sale transaction. The assets must be available for immediate sale in their present condition and the sale must be highly probable. For a sale to be highly probable, various criteria have to be met, including that the sale must be expected to take place within a year. Immediately before non-current assets are classified as held for sale, the carrying amounts have to be determined in accordance with the applicable IFRS standards. After reclassification, the assets are recognised at the lower of carrying amount and fair value less costs to sell. Assets that were previously depreciated are no longer depreciated.

Segment reporting

Flughafen Zürich AG is structured on the basis of functional criteria. For segment reporting purposes, a distinction is made between Aviation and Non-Aviation segments, which correspond to the functions of Operations and Marketing & Real Estate respectively, and thus to the internal reporting structure. Flughafen Zürich AG provides practically all its services within Switzerland. During 2005, it provided external consulting services worth 0.8 million Swiss francs (2004: 0.7 million). The Aviation segment included revenue of 3.2 million Swiss francs in 2004, and the Non-Aviation segment included revenue of 2.0 million Swiss francs resulting from the business activities in Chile (see note 20.6, "Composition of the group"). Due to the partial disposal of this investment, the revenue is not reported from 2005 onwards. As engagements abroad are negligible, a breakdown by geographical region has not been undertaken.

Aviation

This segment encompasses the construction, operation and maintenance of the airport operating infrastructure. 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, all apron zones (including control activities), passenger zones in the terminals, freight operations, baggage sorting and handling system and aircraft energy supply system, passenger handling and services, safety and security, and airport police activities. The main sources of income in the Aviation segment are passenger and landing fees. Third-party earnings here are determined by passenger volumes, flight volumes and the trend with respect to aircraft take-off weights.

All income and expenses associated with aircraft noise are reported separately within the Aviation segment. Furthermore, a liquidity-based statement of noise-related data is presented in the notes to the consolidated financial statements since the Airport of Zurich Noise Fund was de-recognised retrospectively as of 1 January 2004. This statement presents the accumulated surplus or shortfall as of balance sheet date arising from noise charges collected on a "user pays" basis, less expenses for formal expropriations, sound insulation measures and related operating costs (see "Notes to consolidated financial statements", note 16, "Airport of Zurich Noise Fund").

Non-Aviation

Non-Aviation encompasses all activities relating to the development, marketing and operation of the commercial infrastructure at Zurich Airport. This segment includes all retail operations at the airport, revenue from rented premises and supplementary costs (energy supply, etc.), parking fees plus a broad range of commercial services provided by Flughafen Zürich AG. For reporting purposes, each profit centre has been allocated to a primary segment. Any internal supplies and services that have been provided to the other segment have been booked as inter-segment earnings or offset against costs. For example, the Information and Communication Technology (ICT) profit centre is allocated to Non-Aviation as primary segment, and proportionate costs are charged to Aviation on a "user pays" basis. Similarly, our Support sections are allocated to Non-Aviation as primary segment, and are offset accordingly.

Principles of segment reporting

Assets and liabilities are allocated to the two segments if they are either directly attributable to them or can reasonably be allocated to them. Neither financial instruments (including cash and cash equivalents and interest-bearing debt) nor taxes are allocated to the segments. Most of the clients and suppliers of Flughafen Zürich AG maintain business relationships with both segments. Dividing each segment into total assets and total liabilities would require an unreasonable amount of extra accounting work. Debt allocated to the segments is limited to liabilities associated with noise-related costs allocated to the Aviation segment, and to financial liabilities that can be directly allocated to segments. Most of the inter-segment revenue comprises offset rental costs from the Non-Aviation segment for premises required for activities in the Aviation segment. Non-current assets (including terminals) have primarily been allocated to the Non-Aviation segment. The offsetting of costs for the use of premises is based on actual cost (including interest paid on invested capital). Inter-segment revenue simultaneously represents inter-segment expenses in the segment results of the divisions using the facilities. Full-time employees are allocated to both segments.

Notes to consolidated financial statements

Significant estimates and assumptions in the application of accounting policies

Value of property, plant and equipment and intangible assets

Flughafen Zürich AG owns property, plant and equipment and intangible assets with a total carrying amount of 2.9 billion Swiss francs. These assets are tested annually for impairment. The basis is the estimated future cash flows of Flughafen Zürich AG, and a variety of assumptions have to be made in order to estimate them. Cash flows can be negatively influenced by the following risk factors (see also note 7, "Changes in non-current assets").

– Hub carrier

The national airline, Swiss, is the main client of Flughafen Zürich AG. In the same way as any other hub airport, Flughafen Zürich AG greatly depends on the operational and financial development of its hub carrier.

– Legal issues

Various internal and external political restrictions could mean that Flughafen Zürich AG will not be able to fully utilise the opportunities it has created for its business development, primarily through expansion stage 5, and instead may give rise to additional investments and costs. These include:

- People's initiative in the Canton of Zurich calling for restrictions on flight operations ("Plafonierungsinitiative")
- SIL process (Civil Aviation Infrastructure Plan)
- Rulings by the supervisory authorities relating to landing and take-off procedures
- Unilateral ordinance issued by Germany

– Falling demand

Experience over the past few years has shown that civil aviation is a highly volatile business that reacts sensitively to external occurrences (acts of terrorism, outbreaks of disease or epidemics). This means that such events could lead to a fall in demand at Zurich Airport.

Reporting of noise-related costs in the financial statements

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

Following a careful review process, Flughafen Zürich AG has concluded that the costs for formal expropriations should be capitalised, while the costs for sound insulation measures should be recognised in the income statement. A great deal of judgement is involved regarding the timing of recognition of the costs. The costs for sound insulation measures are recognised as a provision if they are undisputed or if the company has assumed a constructive obligation. The costs for formal expropriations are capitalised and recognised as a provision as soon as they can be reliably estimated on the basis of final-instance court rulings. For further information, please refer to the accounting policies.

As of 31 December 2005, Flughafen Zürich AG had not capitalised any costs for formal expropriations as assets and liabilities, whereas it had recognised a provision of 137.1 million Swiss francs for sound insulation measures (see note 15, "Non-current provisions for sound insulation and formal expropriations").

Contingent liabilities

A number of legal proceedings and claims against Flughafen Zürich AG are still pending (for further information, please refer to note 20.4, "Contingent liabilities"), for which Flughafen Zürich AG has not set aside provisions. However, the possibility that additional expenses may arise for Flughafen Zürich AG cannot be ruled out, depending on the outcome of the pending legal proceedings.

Changes in the consolidation structure

On 31 December 2004, Flughafen Zürich AG signed a term sheet reducing its investment in Unique Chile S.A. from 100 to 48 percent, and consequently leading to a proportionate reduction of its investments in the other group companies in Chile. The necessary approval of this transaction by the Chilean government had not been received as of 31 December 2004, but it has since been granted. Since 1 January 2005, this company has been included in the consolidated financial statements by applying the equity method. The deconsolidation of the group companies in Chile as of 1 January 2005 has the following effect on the group's assets and liabilities:

(CHF thousand)	Divestment
Assets excluding cash and cash equivalents	(13,311)
Cash and cash equivalents	(850)
Liabilities	6,084
Minority interests	6,320
Disposal of net assets	(1,757)
Reclassification to associates and financial assets ¹⁾	2,219
Cash and cash equivalents disposed of	850
Foreign currency effect	(462)
Net cash outflow	850

¹⁾ The purchase price of 1.2 million Swiss francs (gain on sale before foreign currency effect: 0.3 million Swiss francs) was financed by means of a loan to the buyers.

No acquisitions took place during the year under review.

Consolidated income statement

1) Revenue from goods and services

(CHF thousand)	2005	2004
Passenger fees	230,328	229,500
Landing fees	68,842	69,046
Noise charges	50,334	49,616
Baggage sorting and handling system	21,248	20,499
Other earnings	11,834	7,261
Aircraft energy supply system	9,178	10,002
Freight revenue	7,687	7,100
Fuel charges	5,725	5,751
Parking fees	4,727	4,713
CUTE charges (check-in system for handling agents)	4,693	4,574
Emission fees	2,912	3,003
Security fees	1,197	901
Bad debt write-offs (Aviation segment)	172	(212)
Total revenue from aviation operations	418,877	411,754
Retail outlets and duty-free shops	55,755	47,426
Revenue from multi-storey car parks	55,118	54,091
Other licence revenue (car rentals, taxis, banks, etc.)	13,476	14,422
Advertising media and promotion	9,488	8,681
Food and beverage operations	9,485	8,438
Total commercial revenue	143,322	133,058
Revenue from rental and leasing agreements	82,938	78,156
Energy and incidental cost allocation	22,592	22,479
Cleaning	2,758	2,195
Other services revenue	2,452	3,393
Total revenue from facility management	110,740	106,223
Communication services	9,897	8,478
Capitalised expenditure ¹⁾	7,299	8,788
Passenger services	5,793	6,031
Conference Center	3,543	2,826
Other services and miscellaneous	2,848	6,714
Bad debt write-offs (Non-Aviation segment)	(90)	(186)
Total revenue from services	29,290	32,651
Total revenue from Non-Aviation segment	283,352	271,932
Total revenue	702,229	683,686

¹⁾ Capitalised expenditures primarily relate to the fees of in-house architects and engineers, as well as project managers who act as builder/owner representatives. Their services are allocated to each project/property.

2) Personnel expenses

(CHF thousand)	2005	2004
Wages and salaries	110,695	108,401
Pension costs		
– for defined benefit plans ¹⁾	70	53
– for defined contribution plans	9,555	8,823
Social security contributions	11,626	7,966
Other personnel expenses	7,949	7,318
Total personnel expenses	139,895	132,561
Average number of employees (full-time positions)	1,258	1,264
No. of employees as of 31 December (full-time positions)	1,262	1,289
Average personnel expenses per position	111	103

¹⁾ See note 18, "Retirement benefit plans".

General remarks

In 2004, personnel expenses were offset by the dissolution of the employers' reserves in the Unique Zurich Airport Staff Pension Fund amounting to 1.5 million Swiss francs and the reduction of 2.2 million Swiss francs in retirement benefit plans (see note 18, "Retirement benefit plans"). No such reductions occurred in 2005.

Staff participation programme

Flughafen Zürich AG gives one share for free to those employees who have completed their first year of service.

Bonus programme for members of the Management Board and middle management personnel

The total of annual remuneration to members of the Management Board and middle management personnel comprises a fixed salary and a variable performance component (bonus), which is based on the consolidated result and the degree of achievement of personal objectives. The criterion for defining the consolidated result is the degree of achievement of budgeted airport value added (see "Business report", "Strategy and value management", "Financial value management"), or the difference between the budgeted and achieved airport value added. The assessment of the degree of achievement of personal objectives is based on the annual Management by Objectives process. In both cases, the decision for the previous year is taken or confirmed in the following financial year by the Nomination & Compensation Committee. Two-thirds of the performance component is paid out in cash and one-third in shares (see also note 20.5, "Related parties").

Recipient	2005 CHF thousand	2004 Number of shares	2004 CHF thousand	2004 Average value per share
Personnel	35	328	32	97.42
Members of the Management Board	299	3,933	608	154.55
Middle management personnel	480	1,464	226	154.55
Total	814	5,725	866	151.28

The bonus for the 2005 financial year was estimated (best assessment) on the basis of the available data as of balance sheet date relating to the degree of achievement of the consolidated result or personal objectives. However, the number of shares to be granted cannot be precisely calculated since the number depends on the share price at grant date. If the shares had been granted as of year-end, a total of 3,565 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 (see note 20.5, "Related parties").

Option programme

No option programme exists at Flughafen Zürich AG.

3) Other operating expenses

(CHF thousand)	2005	2004
Insurance	5,779	5,250
CUTE charges (check-in system for handling agents)	4,320	4,083
Rental and land leases	3,164	3,045
Cleaning by external contractors, incl. snow clearing	2,907	3,911
Communication costs	2,416	2,372
Additional operating costs	2,127	1,726
Passenger services	400	898
Total other operating expenses	21,113	21,285

4) Other expenses/income, net

(CHF thousand)	2005	2004
Other income	6,750	419
Other expenses	(2,729)	(4,901)
Total other expenses/income, net	4,021	(4,482)

Other income in 2005 includes:

- 6.6 million Swiss francs from a non-recurring repayment of accrued costs associated with the Bangalore project which in the past were charged to the income statement

Other income in 2004 includes:

- Non-recurring social insurance contributions amounting to 0.2 million Swiss francs

Other expenses in 2005 include:

- 2.3 million Swiss francs from losses on disposals of non-current assets

Other expenses in 2004 include:

- 3.8 million Swiss francs from aperiodic additional VAT charges incl. interest on arrears
- 0.5 million Swiss francs in aperiodic security-related expenses
- 0.4 million Swiss francs from losses on disposals of non-current assets

5) Financial result

(CHF thousand)	2005	2004
Interest expenses on debentures and non-current loans	86,300	91,413
Less capitalised interest on borrowings for buildings under construction	(681)	(7,223)
Net interest expenses on debentures and non-current loans	85,619	84,190
Interest difference related to interest rate swap	11,396	12,885
Unwinding of discount on non-current provisions for sound insulation and formal expropriations	5,694	5,980
Effective interest expenses	2,563	2,327
Other financial expenses	2,274	2,501
Interest expenses on finance lease payments	1,844	1,696
Interest expenses on bank loans	63	232
Other interest expenses	55	271
Valuation adjustments of financial assets	0	89
Financial costs	109,509	110,171
Changes in fair value of interest rate swap	(8,472)	(2,500)
Interest income on postal cheque accounts and bank deposits/loans	(1,051)	(398)
Net foreign exchange gains, interest on arrears	(173)	(103)
Financial income	(9,696)	(3,001)
Total financial result	99,813	107,170

Capitalised interest on borrowings for buildings under construction was calculated using an average interest rate of 5.65 percent in 2005 and 5.48 percent in 2004.

The group holds an interest rate swap to the value of 300 million Swiss francs. This swap does not meet the requirements for cash flow hedge accounting, and for this reason the changes in fair value of the interest rate swap (minus 8.5 million Swiss francs; 2004: minus 2.5 million Swiss francs) are recognised in the income statement.

6) Income taxes

(CHF thousand)	2005	2004
Current tax	3,666	3,875
Deferred tax	12,663	1,927
Total income taxes	16,329	5,802

Taxes can be analysed as follows:

(CHF thousand)	2005	2004
Profit before tax	75,452	58,070
Tax expense at anticipated tax rate	15,845	13,356
Waiver of capitalisation of deferred taxes on losses	564	129
Miscellaneous transitory items	361	217
Change in tax rate (2005, 21%; 2004, 21%; 2003, 23%)	0	(6,818)
Offsetting of annual profit against non-capitalised losses brought forward	(309)	(2,749)
Tax effect on own shares	(132)	1,745
Use of other tax rate	0	(78)
Total income taxes	16,329	5,802

Consolidated balance sheet

7) Changes in non-current assets

(CHF million)	Land	Engineering structures	Buildings	Facilities in leasing	Projects in progress in leasing	Projects in progress	Movables	Total property, plant and equipment	Intangible assets	Goodwill	Financial assets	Investments in associates	Total
Cost													
Closing balance sheet as of 31.12.2003	112.3	1,178.8	3,165.4	85.0	1.9	323.6	187.0	5,054.1	48.6	31.0	1.0	0.0	5,134.7
Additions					0.6	183.9		184.5			15.0	0.6	200.1
Disposals		(0.7)	(4.8)				(2.3)	(7.8)			(0.1)	(0.2)	(8.1)
Transfers		46.5	363.7	2.3	(2.3)	(441.8)	19.0	(12.6)	12.6				0.0
Closing balance sheet as of 31.12.2004	112.3	1,224.7	3,524.3	87.4	0.2	65.6	203.6	5,218.0	61.2	31.0	16.0	0.4	5,326.7
Restatement according to IFRS 3										(28.8)			(28.8)
Opening balance on 1.1.2005	112.3	1,224.7	3,524.3	87.4	0.2	65.6	203.6	5,218.0	61.2	2.2	16.0	0.4	5,297.9
Effect of partial sale of subsidiary			(16.2)	(0.6)			(0.2)	(17.0)	(0.1)	(2.2)	(1.0)		(20.2)
Additions					1.7	114.9	0.0	116.6		0.2	1.8	5.7	124.3
Disposals	(1.3)	(3.4)	(28.3)				(7.2)	(40.3)	(0.3)				(40.6)
Transfers	1.4	30.3	73.8	0.8	(0.8)	(140.5)	24.1	(10.9)	10.9				0.0
Closing balance sheet as of 31.12.2005	112.3	1,251.6	3,553.6	87.5	1.2	40.0	220.3	5,266.5	71.8	0.2	16.8	6.1	5,361.4
Depreciation/amortisation and impairment losses													
Closing balance sheet as of 31.12.2003	0.0	444.6	1,543.1	2.1	0.0	0.0	100.5	2,090.3	26.1	22.8	0.0	0.0	2,139.1
Additions		35.9	122.4	5.1			15.2	178.6	9.7	6.1			194.4
Disposals		(0.6)	(3.8)				(2.0)	(6.4)					(6.4)
Closing balance sheet as of 31.12.2004	0.0	479.9	1,661.6	7.2	0.0	0.0	113.6	2,262.5	35.8	28.8	0.0	0.0	2,327.1
Restatement according to IFRS 3										(28.8)			(28.8)
Opening balance on 1.1.2005	0.0	479.9	1,661.6	7.2	0.0	0.0	113.6	2,262.5	35.8	0.0	0.0	0.0	2,298.3
Effect of partial sale of subsidiary			(8.3)				(0.1)	(8.4)					(8.4)
Additions		37.7	122.4	5.2			15.9	181.2	11.2	0.2			192.6
Disposals		(2.0)	(26.1)				(7.2)	(35.3)	(0.1)				(35.4)
Closing balance sheet as of 31.12.2005	0.0	515.7	1,749.6	12.4	0.0	0.0	122.3	2,400.0	46.8	0.2	0.0	0.0	2,447.0
Government subsidies and grants													
Closing balance sheet as of 31.12.2003	0.0	0.8	16.7	0.0	0.0	0.0	0.0	17.4	0.0	0.0	0.0	0.0	17.4
Dissolutions		(0.2)	(4.2)					(4.4)					(4.4)
Closing balance sheet as of 31.12.2004	0.0	0.6	12.4	0.0	0.0	0.0	0.0	13.0	0.0	0.0	0.0	0.0	13.0
Dissolutions		(0.2)	(3.4)					(3.6)					(3.6)
Closing balance sheet as of 31.12.2005	0.0	0.4	9.0	0.0	0.0	0.0	0.0	9.4	0.0	0.0	0.0	0.0	9.4
Net carrying amount													
as of 31.12.2003	112.3	733.5	1,605.7	83.0	1.9	323.6	86.5	2,946.4	22.6	8.2	1.0	0.0	2,978.2
as of 31.12.2004	112.3	744.2	1,850.3	80.2	0.2	65.5	90.0	2,942.6	25.5	2.2	16.0	0.4	2,986.6
as of 31.12.2005	112.3	735.5	1,795.0	75.1	1.2	39.9	98.1	2,857.1	25.0	0.0	16.8	6.1	2,905.0

Note: when adding up rounded-up or rounded-down sums, it is possible that minor discrepancies may occur.

Buildings:

In 2003, Flughafen Zürich AG concluded a lease transaction with a US trust. In the first stage of this deal, the utilisation rights to multi-storey car parks 1, 2, 3 and 6 were sold to a US trust and simultaneously leased back. Flughafen Zürich AG is to retain ownership of the multi-storey car parks with a net carrying amount as of 31 December 2005 of 177.9 million Swiss francs (31 December 2004: 188.2 million Swiss francs) during the entire period of the lease agreement. Repayment of the additional capital is to be effected in almost identical tranches in the period from 2005 to 2012. After the full amount has been repaid, the utilisation rights will be returned to Flughafen Zürich AG. The option of increasing the sale price by extending the period of utilisation rights was not used. The US trust has been consolidated in accordance with SIC-12.

Lease of baggage sorting and handling system and aircraft energy supply system:

In December 2001, Flughafen Zürich AG concluded a framework lease agreement for financing the new baggage sorting and handling system and the aircraft energy supply system over a term of 17 years. On 1 August 2003, since the systems were near completion, a first tranche of the definitive lease agreements totalling 84.5 million Swiss francs was put into effect. These lease agreements have a maturity of 17 years. The second, third, fourth and fifth tranches will take effect on 31 January 2004 (1.8 million Swiss francs), 31 July 2004 (0.5 million Swiss francs), 31 January 2005 (0.4 million Swiss francs) and 31 July 2005 (0.4 million Swiss francs). Additional tranches will be taken on if necessary after six months. In terms of form and content, both the framework and the definitive lease agreements are regarded as financial leases and they have therefore been capitalised. The leased facilities available for operation have been depreciated with effect from their date of completion.

Goodwill comprises the following:

The goodwill arising from the acquisition of the three airports in Chile has a net carrying amount as of 31 December 2005 of 0.0 million Swiss francs (acquisition price, 6.3 million Swiss francs; accumulated amortisation including impairment losses, 6.3 million Swiss francs). As a result of the reduction of the investment held by Flughafen Zürich AG in Unique Chile S.A. from 100 to 48 percent, and thus its proportional investments in the other group companies in Chile, Unique Chile S.A. was deconsolidated as of 1 January 2005. Since 1 January 2005, this company is included in the consolidated financial statements by applying the equity method.

The goodwill arising from the acquisition of the airport on the Caribbean island of Isla de Margarita amounting to 0.2 million Swiss francs has a net carrying amount of 0.0 million Swiss francs as of 31 December 2005.

Impairment calculation:

Flughafen Zürich AG carried out an assessment of the value of the group's assets (impairment test) as of balance sheet date. This was based on the anticipated future cash flows of Flughafen Zürich AG, which form the smallest cash-generating unit. The calculation of value in use as of 31 December 2005 revealed that no recognition of impairment losses is required.

The impairment calculation is based on the following assumptions:

- Discount rate of 7 percent
- Zurich will maintain its hub status
- Growth of local passengers will be twice as fast as GDP growth in Switzerland
- Hub carrier will not significantly change its fleet
- Growth of flight movements will be disproportionately slower than passenger growth
- Other investments in the airport infrastructure will secure at least the present-day quality.

Depreciation and amortisation:

Dissolutions of government subsidies and grants amounting to 3.6 million Swiss francs were offset against depreciation and amortisation totalling 192.6 million Swiss francs.

8) Financial assets

(CHF thousand)	31.12.2005	31.12.2004
Loan to Swiss International Air Lines AG ¹⁾	15,000	15,000
Loan to third-party shareholders in Unique Chile SA	932	0
Loan to Swissport Zürich AG	889	0
Credit balance for future investments (Chile)	0	959
Miscellaneous cash deposits at banks (Chile)	0	9
Total financial assets	16,821	15,968

¹⁾ On 31 January 2006, Swiss International Air Lines AG repaid its loan (15.0 million Swiss francs) ahead of schedule.

9) Investments in associates

(CHF thousand)	31.12.2005	31.12.2004
Bangalore International Airport Ltd., India Equity share 17%, nom. share capital INR 3.850 million ¹⁾	4,359	22
Unique Chile SA, Chile Equity share 48%, nom. share capital CLP 2.184 million ²⁾	1,118	
Contribution to 2005 profit	12	0
Administradora Unique IDC C.A., Venezuela Equity share 49.5%, nom. share capital VEB 25 million	2	1
Contribution to 2004 profit	384	384
Contribution to 2005 profit	227	613
Aeropuertos Asociados de Venezuela C.A., Venezuela Equity share 49.5%, nom. share capital VEB 10 million	1	1
Total investments in associates	6,103	408

¹⁾ Flughafen Zürich AG holds 17 percent of the share capital in Bangalore International Airport Ltd. Since Flughafen Zürich AG is able to exercise significant influence over Bangalore International Airport Ltd. due to its involvement in executive and supervisory bodies, its participation in decision-making processes, the exchange of management personnel and by providing of important know-how, the investment is accounted for using the equity method.

As of 31 December 2005, Flughafen Zürich AG provided a bank guarantee to the Bangalore International Airport Ltd. in the amount of 11.9 million Swiss francs or INR 406.6 million (see note 20.3, "Capital commitments").

²⁾ The investment in Unique Chile SA has been accounted for using the equity method since 1 January 2005 (see "Notes to consolidated financial statements", "Changes in the consolidation structure").

See also note 20.6, "Composition of the group".

10) Trade receivables

(CHF thousand)	31.12.2005	31.12.2004
Trade receivables ¹⁾	95,503	88,557
Valuation adjustment	(680)	(1,314)
Total trade receivables, net	94,823	87,243

¹⁾ Trade receivables include an amount of 30.8 million Swiss francs due from Swiss International Air Lines AG (2004: 29.0 million Swiss francs) (see "Significant estimates and assumptions in the application of accounting policies", "Value of property, plant and equipment and intangible assets", "Hub carrier" and note 20.1, "Financial risk management", "Credit risks"). In the period between balance sheet date and the preparation of the 2005 annual report, Swiss International Air Lines AG paid the outstanding amount (as of 31 December 2005) in full.

11) Other receivables and prepaid expenses

(CHF thousand)	31.12.2005	31.12.2004
Prepaid expenses and accruals	14,366	21,000
Advance payments to suppliers	2,702	2,690
Tax receivables (VAT/withholding tax)	2,024	2,969
Other receivables	679	940
Current account with Zurich Airport Staff Pension Fund	0	1,192
Total other receivables and prepaid expenses	19,771	28,791

12) Cash and cash equivalents

(CHF thousand)	31.12.2005	31.12.2004
Cash on hand, at banks and in postal cheque accounts	12,497	19,693
Call deposits due within 30 days	21,000	8,000
Collateral due within 90 days ¹⁾	3,240	18,097
Total cash and cash equivalents	36,737	45,790

¹⁾ For information on collateral, see note 14, "Financial liabilities".

13) Equity

Number of shares	Issued registered shares	Own shares	Total shares in circulation
Balance as of 1 January 2005	4,912,300	20,407	4,891,893
Purchase of own shares		50,033	(50,033)
Sale of own shares		(50,605)	50,605
Distribution of own shares to employees and third parties		(7,994)	7,994
Balance as of 31 December 2005	4,912,300	11,841	4,900,459

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

Own shares

Own shares are distributed to employees and third parties within the scope of the bonus scheme (see note 2, "Personnel expenses" and note 20.5, "Related parties"). Own shares are used for the bonus programme and are held as treasury stock.

Reserves

In accordance with the provisions of commercial law, the reserves are subject to a distribution limit of 124.5 million Swiss francs.

Earnings per share

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

	2005	2004
Profit attributable to be allocated to shareholders of Flughafen Zürich AG in CHF	59,122,725	52,406,456
Weighted average number of outstanding shares	4,895,048	4,776,164
Effect of dilutive shares	7,578	7,090
Adjusted weighted average number of outstanding shares	4,902,626	4,783,254
Basic earnings per share in CHF	12.08	10.97
Diluted earnings per share (in CHF)	12.06	10.96

Major shareholders and shareholder structure

The shareholder structure as of 31 December was as follows:

	2005	2004
Public sector	51.00 %	51.00 %
Private individuals	3.78 %	4.28 %
Companies	2.78 %	4.09 %
Pension funds	1.10 %	2.68 %
Financial institutions	13.51 %	19.46 %
Balance available and non-registered shareholders	27.83 %	18.49 %
Number of shareholders	3,841	3,832

The following shareholders or groups of shareholders hold more than five percent of the voting rights:

	2005	2004
Canton of Zurich (including BVK pension fund)	45.60 %	46.76 %
City of Zurich (including pension fund of the City of Zurich)	5.38 %	5.40 %

14) Financial liabilities

(CHF thousand)	31.12.2005	31.12.2004
Japanese private placement	406,830	400,714
US private placement	354,941	303,842
Non-current liabilities towards banks arising from US car park lease	301,955	296,875
Non-current loan from Canton of Zurich	300,000	300,000
Debentures	202,087	291,593
Lease liabilities	73,721	77,027
Non-current liabilities towards banks	0	3,247
Other non-current financial liabilities	0	632
Non-current financial liabilities	1,639,534	1,673,930
Debenture (repayment 12.4.2006/5.7.2005)	89,959	81,909
Current liabilities towards banks arising from US car park lease	44,721	37,045
Current lease liabilities	4,570	4,410
Current account with Zurich Airport Staff Pension Fund	12	0
Current liabilities towards banks	0	1,309
Current financial liabilities	139,262	124,673
Total financial liabilities	1,778,796	1,798,603

The debenture running from 2000 to 2005 with a nominal value of 82 million Swiss francs and the first repayment of liabilities towards banks arising from the US car park lease (44.4 million Swiss francs nominal value) were both repaid from available liquidity in full and in accordance with the applicable agreements on 5 July 2005 and 20 December 2005 respectively.

The following **non-current financial liabilities** existed in the form of fixed interest borrowings as of balance sheet date:

Financial liability	Nominal amount in thousand 31 Dec. 2005	Carrying amount in CHF thousand 31 Dec. 2005	Duration	Interest rate	Early repayment	Interest payment date
Debentures	CHF 90,000	89,959	1996–2006 ¹⁾	4.625 %	no	12 April
	CHF 75,000	74,825	1995–2007	5.000 %	no	28 Sept.
	CHF 128,000	127,262	2001–2009	4.250 %	no	26 March
Subtotal debentures	CHF 293,000	292,046				
Japanese private placement	JPY 37,000,000	406,830	2003–2024	5.730 %	no	23 May/ 23 Nov.
Liabilities towards banks arising from US car park lease	USD 271,000	301,955 44,721 ²⁾	2003–2012	3.606 %	from 2005	20 Dec.
US private placement	USD 275,000	354,941	2003–2015	4.7525 %	from 2011	11 April/ 11 Oct.
Non-current loan from Canton of Zurich	CHF 300,000	300,000	2002–2012	5.000 %	no	19 July

¹⁾ Reported under current financial liabilities, since repayment due on 12 April 2006.

²⁾ Reported under current financial liabilities, since second repayment due on 20 December 2006.

The following derivative instruments are held by Flughafen Zürich AG to hedge the currency risks associated with interest payments and repayments relating to non-current financial liabilities held in foreign currencies:

Derivative financial instruments	Duration	Contract amount in million	Negative fair value on 31 Dec. 2005 in CHF thousand	Negative fair value on 31 Dec. 2004 in CHF thousand
Cross currency interest rate swap for Japanese private placement	2003–2024	JPY 37,000	97,663	106,362
Cross currency interest rate swap for US private placement	2003–2015	USD 275	34,012	79,150
Cross currency interest rate swap for US car park lease	2003–2012	USD 271	23,616	75,745
Total			155,291	261,257

The fair value of the derivative instruments is recognised under current debt, accruals and deferrals (see also note 19, “Other current debt, accruals and deferrals”).

The hedge transactions are classified as cash flow hedges. Changes in the fair value of hedging instruments are accordingly recognised in equity (see also “Consolidated statement of changes in equity”).

(CHF thousand)	2005	2004
Gross amount as of 1 January	(261,257)	(133,961)
Gain/(loss) relating to changes in fair value of cross currency interest rate swaps	105,966	(127,296)
Gross amount as of 31 December	(155,291)	(261,257)
Less deferred taxes	32,611	54,864
Net amount as of 31 December	(122,680)	(206,393)

The accumulated losses on hedging instruments decreased by 83.7 million Swiss francs (after deduction of deferred taxes) from 206.4 million Swiss francs to 122.7 million Swiss francs. 89.0 million Swiss francs were transferred to the income statement, which is reflected in the statement of changes in equity.

In the event that the cross currency interest rate swaps relating to the **US private placement** and the **Japanese private placement** should reach a negative fair value that exceeds a given minimum level, Flughafen Zürich AG is required to provide collateral in the form of cash and cash equivalents, securities or letters of credit. As of balance sheet date the following collateral existed:

(CHF thousand)	31.12.2005	31.12.2004
Cash and cash equivalents	3,240	18,097
Letter of credit	116,000	155,000

Flughafen Zürich AG also has an interest rate swap with a contract amount of 300 million Swiss francs which runs from 2000 to 2009.

Standard guarantees and covenants are provided for external loans, and these were complied with as of balance sheet date.

For information concerning the loan from the Canton of Zurich, please refer to note 20.5, "Related parties".

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

(CHF thousand)	31.12.2005	31.12.2004
Within 1 year	139,262	124,673
Between 2 and 5 years	418,319	477,141
Longer than 5 years	1,221,215	1,196,789
Total financial liabilities	1,778,796	1,798,603

Lease liabilities include the lease concerning the baggage sorting and handling system and also the aircraft energy supply systems (see note 7, "Changes in non-current assets").

Lease liabilities

(CHF thousand)	31.12.2005	31.12.2004
Future minimum lease payments		
– due within 1 year	6,345	6,251
– due within 2 to 5 years	25,381	24,904
– due after 5 years	60,588	65,798
Total future minimum lease payments	92,314	96,952
Future interest payments	14,023	15,515
Present value of lease liabilities	78,291	81,437
– of which due within 1 year	4,570	4,410
– of which due within 2 to 5 years	19,381	18,597
– of which due after 5 years	54,340	58,430

The applicable interest rate for lease liabilities is 2.32 percent (2004, 2.30 percent). The interest rate is variable, but may be converted to a fixed rate at any time.

15) Non-current provisions for sound insulation and formal expropriations

Provisions for sound insulation costs

Flughafen Zürich AG has effectively committed itself to bearing approximately 240 million Swiss francs in costs for sound insulation measures, some of which have already been carried out and others which have been announced. As of the balance sheet date, a total of 76.2 million Swiss francs had been paid. The remaining amount is stated at the present value in the breakdown of provisions shown below. The discount rate is 4 percent.

(CHF thousand)	Sound insulation	Formal expropriations	Total
Provisions as of 1 January 2004	149,502	0	149,502
Provision used	(13,123)	0	(13,123)
Provision reversed	0	0	0
Provision made	0	0	0
Unwinding of discount	5,980	0	5,980
Provisions as of 31 December 2004	142,359	0	142,359
Provision used	(10,962)	0	(10,962)
Provision reversed	0	0	0
Provision made	0	0	0
Unwinding of discount	5,694	0	5,694
Provisions as of 31 December 2005	137,091	0	137,091

Provisions for formal expropriations

As of balance sheet date, no final rulings had been pronounced on compensation claims arising from formal expropriations on the basis of excessive aircraft noise or direct overflights, though a number of cases are pending. Initial conciliation proceedings were held in November 2005 concerning 18 "pilot" cases in the municipality of Opfikon, but no agreements were reached. In these cases, valuation hearings are to take place in the middle of 2006, and this means that first-instance rulings are to be expected by the end of 2006. It is difficult for the Management Board to reliably estimate the costs that will result from these proceedings at the present time, since:

- (I) there are gaps in the relevant legislation
- (II) there is a lack of legal practice relating to many fundamental issues, and existing rulings are sometimes conflicting
- (III) the influence of political debate cannot be underestimated
- (IV) the costs will be influenced by the definitive operating regulations, which are still awaiting approval.

The Management Board believes that it will be able to reliably estimate the anticipated costs after the Federal Tribunal (as final instance) has ruled on the fundamental issues raised in the Opfikon pilot cases. A ruling is not expected before 2007.

Flughafen Zürich AG has estimated the potential costs for formal expropriations (risk assessment) at between 800 million and 1.2 billion Swiss francs. However, the effective costs could deviate significantly from the estimated costs in either direction.

Flughafen Zürich AG assumes that these costs would have to be paid over a period of several years. This is assuming that they should even reach the estimated level.

For information about the accounting policies, please refer to "Accounting policies", "Intangible assets and goodwill", "Provisions", and "Notes to consolidated financial statements", "Significant estimates and assumptions in the application of accounting policies".

16) Airport of Zurich Noise Fund (AZNF)

Airport of Zurich Noise Fund is a liquidity-based fund. The statement for the fund presents the accumulated surplus or shortfall as of balance sheet date arising from noise charges collected on a "user pays" basis, less expenses for formal expropriations, sound insulation measures and noise-related operating costs. This is a separate presentation for the purpose of providing transparency for the general public and clients of Zurich Airport.

The situation of this fund as of 31 December was as follows:

(CHF thousand)	2005	2004
Airport of Zurich Noise Fund as of 1 January	118,341	79,706
Total revenues from noise charges	50,334	49,616
Total costs for sound insulation and other measures	(10,963)	(13,122)
Net result before operating and imputed costs	157,712	116,200
Noise-related operating costs	(4,136)	(3,243)
Imputed interest	7,697	5,384
Airport of Zurich Noise Fund as of 31 December	161,273	118,341

17) Deferred tax liabilities

In accordance with IAS 12.47, deferred tax assets and liabilities are calculated at the rate that is expected to apply at the time they are realised. Flughafen Zürich AG anticipates an applicable tax rate of 21% (2004: 21%; 2003: 23%). The adjustment for the change in tax rate in 2004 has been recognised in the income statement and equity in accordance with IAS 12.60.

The balance of deferred tax liabilities evolved as follows:

(CHF thousand)	2005	2004
Opening balance	32,868	35,974
Deferred taxes on changes in fair value of cross currency interest rate swaps booked in equity (hedging reserves)	(23,646)	(26,732)
Cross currency interest rate swaps – transfer to income statement	22,253	19,496
Change according to income statement	12,663	8,745
Other effects	434	(185)
Change in tax rate, booked in retained earnings	0	352
Change in tax rate, booked in hedging reserves	0	2,036
Change in tax rate, booked to income statement	0	(6,818)
At end of year	44,572	32,868

Deferred tax is allocated to the following balance sheet items:

(CHF thousand)		31.12.2005		31.12.2004
	Assets	Liabilities	Assets	Liabilities
Buildings and movables		48,322		48,386
Renovation fund		21,441		20,286
Financial liabilities issuing costs		200		314
Financial liabilities transaction costs		4,557		4,921
Aircraft noise		5,078	5,044	
Interest rate swap	5,375		7,154	
Changes in fair value of cross currency interest rate swaps	32,611		54,864	
Foreign currency fluctuations on cross currency interest rate swaps		2,607		26,253
Miscellaneous items		353	230	
Deferred taxes (gross)	37,986	82,558	67,292	100,160
Offsetting of assets and liabilities	(37,986)	37,986	(67,292)	67,292
Deferred taxes (net)	0	44,572	0	32,868

As of 31 December 2005, Flughafen Zürich AG and its subsidiaries had total losses brought forward of CHF 6.392 million to be offset against taxes. Deferred tax assets on these losses have not been recognised since it is not probable that future taxable profit will be available against which the group can utilise the benefits. Of the total amount cited above, 0.002 million Swiss francs expires in 2008, 0.520 million in 2009, 2.564 million in 2010, 0.615 million in 2011 and 2.691 million in 2012.

18) Retirement benefit plans

The retirement benefit commitments reported for the year under review refer to the special plan with the BVK for compensation for early retirement. This plan was altered as follows as of 1 January 2004: until the end of 2003, a special rule made it possible to draw early retirement benefits as of age 57. On 1 January 2004 the early retirement age was raised to 60. The liabilities for all employees as of age 60 were re-calculated accordingly, resulting in a reduction by 2.2 million Swiss francs in 2004.

Balance sheet

(CHF thousand)	31.12.2005	31.12.2004
Provision for retirement benefits, present value	2,609	2,367
Unrecognised actuarial gains/(losses)	110	(197)
Unrecognised past service cost	(915)	(730)
Liability on balance sheet	1,804	1,440

Income statement

(CHF thousand)	2005	2004
Interest expenses	70	53
Net periodic pension cost	70	53

All pension fund costs are reported as personnel expenses (see note 2, "Personnel expenses").

Change in provisions for retirement benefits in the balance sheet

(CHF thousand)	31.12.2005	31.12.2004
Opening balance	1,440	3,999
Net periodic pension income (cost)	70	53
Benefits paid in directly by employer	(436)	(445)
Changes in actuarial gains (2004: change of plans)	730	(2,167)
Closing balance	1,804	1,440

The calculation of provisions for retirement benefits was based on the following assumptions:

	2005	2004
Discount rate	2.90 %	3.25 %
Expected future pension increases	1.0 %	1.0 %

19) Other current debt, accruals and deferrals

(CHF thousand)	31.12.2005	31.12.2004
Fair value of cross currency interest rate swaps ¹⁾	155,291	261,257
Deferred income and accruals	53,534	62,509
Fair value of interest rate swap	35,993	44,670
Amounts due to personnel (holidays and overtime, bonuses)	9,034	10,192
Deposits and payments in advance by customers	4,142	6,166
Current provisions	2,400	2,400
Other liabilities	620	608
Social security contributions	568	94
Total other current debt, accruals and deferrals	261,582	387,896

¹⁾ See also note 14, "Financial liabilities".

20) Further details

20.1) Financial risk management

Derivative financial instruments: With the exception of the cross currency interest rate and interest rate swaps described in note 5, "Financial result" and note 14, "Financial liabilities", the group does not have any derivative financial instruments.

Currency risks: Flughafen Zürich AG is exposed to currency risk in connection with financial transactions in US dollars and Japanese yen, and uses derivative financial instruments (see note 14, "Financial liabilities") to hedge this risk. Hedge accounting is used for qualifying hedging transactions where deemed necessary.

In the area of operations, virtually all of the group's transactions are in Swiss francs, which means no further currency risks need to be hedged.

Interest rate risks: All non-current financing transactions have been concluded at a fixed interest rate, with the exception of the lease of the baggage sorting and handling system and the aircraft energy supply system. The risk on the short-term variable advances is hedged in the form of an interest rate swap.

Credit risks: With the exception of Swiss as the main client, credit risk is distributed over a broad clientele. Trade receivables includes the amount of 30.8 million Swiss francs due from Swiss International Air Lines AG (2004: 29.0 million Swiss francs) (see note 10, "Trade receivables"). In the period between balance sheet date and the preparation of the 2005 annual report, Swiss International Air Lines AG paid the outstanding amount (as of 31 December 2005) in full.

Where necessary, terms of payment are applied or collateral is requested in order to minimise risk.

Fair values: The figures shown in the balance sheet concerning cash and cash equivalents, trade receivables, other receivables and current debt approximately correspond to fair values as defined by IFRS.

20.2) Operating lease

Flughafen Zürich AG has the following non-cancellable lease liabilities:

Leasing of the check-in system for handling agents (CUTE):

(CHF thousand)	31.12.2005	31.12.2004
Due within 1 year	4,347	4,277
Due within 2 to 5 years	2,898	7,128
Due after 5 years	0	0
Total future lease payments	7,245	11,405

The tenancy agreements concluded by the group in its capacity as landlord are terminable within one year.

a) Fixed tenancy agreements

These are divided into limited term and indefinite agreements. The latter may be terminated within the normal legal period of notice of six months.

b) Turnover-based agreements

New tenancy agreements were concluded with all business partners occupying commercial areas which have become available since 2003 for rent on a turnover basis (this did not include transfer to new premises). These new agreements generally comprise a fixed basic rent plus a turnover-based portion, with a fixed duration of 5 years and the option of extension for another two years. The already existing turnover-based tenancy agreements may be terminated within the period of one year.

20.3) Capital commitments

As of the end of 2005, the group had approved investments in non-current assets amounting to approximately 1.99 billion Swiss francs (2004: 2.14 billion Swiss francs). These were mainly associated with expansion stage 5, i.e. construction of the new Airside Centre, railway check-in centre, multi-storey car park and Dock E, including Skymetro. Of this amount, 1.98 billion Swiss francs had been allocated as of 31 December 2005 (2004: 1.99 billion Swiss francs), of which 1.97 billion Swiss francs (2004: 1.93 billion Swiss francs) had already been spent.

Within the scope of the airport participation in Venezuela, the syndicate, in which Unique (Flughafen Zürich AG) holds a 49.5 percent stake, has entered into an agreement with the local government to implement an investment programme worth a total of 34 million US dollars over the next 20 years. The investments in question will only be made if certain basic conditions are fulfilled and will be largely financed from the expected operating cash flows.

On 27 June 2005, the bank providing the financing for a new international airport in Bangalore (India) declared that all its requirements had been met for granting the necessary loans (financial close), as a result of which construction work commenced in July 2005. Flughafen Zürich AG holds a 17 percent stake (total, approximately 16 million Swiss francs, of which 4.359 million had been invested as of 31 December 2005) in Bangalore International Airport Ltd. (BIAL), which managed the project and will be building and operating the airport. BIAL is a

public/private partnership in which private investors hold a 74 percent stake, and the Indian government and Karnataka State each hold a 13 percent stake. This is the first project of its kind in India. The biggest shareholder is Siemens (40 percent), and Indian construction company Larsen & Toubro Ltd. holds a 17 percent stake.

Flughafen Zürich AG is assisting BIAL with the planning and construction of the airport, as well as with its later operation, on the basis of an operating, management and service agreement that has been concluded for a period of ten years. As of 31 December 2005, Flughafen Zürich AG provided a bank guarantee to Bangalore International Airport Ltd. in the amount of 11.9 million Swiss francs or INR 406.6 million (see "Notes to consolidated financial statements", note 9, "Investments in associates"). It represents payments still to be made in future.

20.4) Contingent liabilities

A number of legal proceedings and claims against Flughafen Zürich AG within the scope of normal business activities are still pending. In the opinion of the company, the amount required for settling these lawsuits and claims will not have a negative impact on the consolidated financial statements and cash flow.

In the year under review, the following legal proceedings were initiated outside the scope of normal business activities: On 4 October 2001, Swissair Schweizerische Luftverkehr Aktiengesellschaft (Swissair) paid the amount of 21.8 million Swiss francs to Flughafen Zürich AG in settlement of airport charges for the month of July 2001. On 2 October 2001, Swissair had already ceased operation due to lack of liquidity. Swissair then applied for deferment of bankruptcy, which was granted on 5 October 2001. On 23 May 2005, the liquidator of Swissair Schweizerische Luftverkehr AG in Nachlassliquidation contested the cited payment and demanded that it be refunded, since in his view, Flughafen Zürich AG had been given preference over other creditors. Flughafen Zürich AG regards this payment as lawful. On 17 November 2005, a lawsuit was filed within the stated deadline with the commercial court by Swissair, represented by its liquidator. A ruling by the commercial court is expected in the course of 2006.

20.5) Related parties

Related parties are:

- The Canton of Zurich
- Members of the Board of Directors
- Members of the Management Board

On 16 July 2002, the conditions governing use of the loan granted by the Canton of Zurich within the scope of the merger between the former Flughafendirektion (FDZ) and the former Flughafen Immobilien Gesellschaft (FIG), were regulated in a comprehensive framework agreement with the Canton of Zurich. The maximum available amount of this loan corresponds to the total investments made in engineering structures relating to expansion stage 5. Since the provisional final costs of these investments were reduced further, the credit facility limit fell from 826 million Swiss francs to 774 million, and on 19 July 2002 the group drew 300 million Swiss francs for a fixed term of 10 years (up to 2012) at an interest rate of 5 percent. No amounts were recently drawn from this credit with interest to be paid on the basis of the CHF LIBOR rate, which means that a total of 300 million Swiss francs had been borrowed as of 31 December 2005 (300 million Swiss francs as of 31 December 2004).

During the 2005 financial year, the following amounts were paid to related parties in the form of remuneration:

(CHF thousand)	2005	2004
Board of Directors and Management Board		
– Salaries/fees	2,412	2,518
– Pensions	149	127
– Share-based payments	299	608
– Severance payments	0	0
– Other non-current payments	0	0
Board of Directors and Management Board (Total)	2,860	3,253
MWV Bauingenieure AG, remuneration for engineering work		
(co-owned by a member of the Board of Directors)	62	87
Canton of Zurich (cantonal police at market conditions		
as per service agreement)	71,633	67,452

3,933 shares were issued to members of the Management Board within the scope of the bonus programme. These shares are blocked for a period of four years. There is no share or option programme for the Board of Directors. See note 2, "Personnel expenses".

20.6) Composition of the group

The group currently comprises the following companies:

Name	Domicile	Share capital	Stake held in %	Consolidation
Flughafen Zürich AG	Kloten	CHF 245,615,000	Parent company	C
Unique Betriebssysteme AG	Kloten	CHF 100,000	100%	C
APT Airport Technologies AG	Kloten	CHF 1,800,000	100%	C
Unique Airports Worldwide AG	Kloten	CHF 100,000	100%	C
BIAL Bangalore International				
Airport Ltd	Bangalore	INR 3,850 million	17%	E
Unique Chile S.A.	Santiago de Chile	CLP 2,184 million	48%	E
Unique Airport Latin America (UALA) S.A.	Santiago de Chile	CLP 2,595 million	40%	E
Aeropuertos Asociados de Chile S.A.	Santiago de Chile	CLP 5,190 million	20%	E
Administracion de Concesiones IDC S.A.	Santiago de Chile	CLP 185 million	20%	E
Concesion Aeropuerto El Loa S.A.	Santiago de Chile	CLP 563 million	16%	E
Concesion Aeropuerto La Florida S.A.	Santiago de Chile	CLP 843 million	20%	E
Concesion Aeropuerto El Tepual S.A.	Santiago de Chile	CLP 895 million	16%	E
Administradora Unique IDC C.A.	Porlamar	VEB 25 million	49.5%	E
Aeropuertos Asociados de Venezuela C.A.	Porlamar	VEB 10 million	49.5%	E

Key: C = Fully consolidated company

E = Equity method

20.7) Notes to service concession agreements

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

Main conditions:

The licence encompasses the operation of an airport in accordance with the provisions of the ICAO (International Civil Aviation Organization) 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 maintain the necessary infrastructure for this purpose. To accomplish this, it is entitled to collect fees 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 refuelling, aircraft handling, passenger handling, baggage sorting and handling, post and freight handling, and catering, 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).

Obligations:

The licence holder 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 Civil Aviation Infrastructure Plan (SIL) and the provisions of the operating regulations.

The licence holder is obliged to implement all measures relating to regulations governing the use of German air space 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 licence holder shall meet all obligations to which it is bound through clauses of the civil aviation treaty between Germany and Switzerland without entitlement to compensation. This provision is the subject of pending legal proceedings instigated by Flughafen Zürich AG, in which it calls for the above clause to be declared null and void. No ruling has been made to date.

The licence holder is empowered and obliged to enforce sound insulation measures and to implement them where they are not the subject of dispute.

Assignment of parts of operating licence to third parties:

As part of the bilateral agreements that came into effect on 1 June 2002, the EU ground handling guidelines (Directive 96/67/EU dated 15 October 1996 concerning free access for ground handling service providers to airports within the EU) also became applicable to Switzerland. Flughafen Zürich AG was subsequently entrusted with the task of incorporating this directive into its own operating regulations. For this purpose, a supplement to the operating regulations came into effect on 1 January 2003. As a consequence, requests for tenders relating to the award of licences for ground handling operations have been initiated in those areas in which the number of admissible service providers has to be limited.

20.8) Events occurring after the balance sheet date

The Board of Directors authorised the 2005 consolidated financial statements for issue on 8 March 2006. These also have to be approved by the General Meeting of Shareholders.

On 8 March 2006, Flughafen Zürich AG and the Canton of Zurich signed a supplement to the merger agreement dated 14 December 1999 regulating the sustainable reduction and limitation of risks to Flughafen Zürich AG associated with aircraft noise. The main content of this supplementary agreement is as follows:

1. Flughafen Zürich AG is obliged to implement measures by means of which the ability to tolerate balance sheet and financing risks associated with aircraft noise up to approximately 1.1 billion Swiss francs can be assured. For this purpose, on 11 April 2006 the Board of Directors is to ask the General Meeting of Shareholders to approve a capital increase with a market value of approximately 300 million Swiss francs in order to strengthen the company's equity. Since Flughafen Zürich AG will not need to use these funds in the immediate future – an effective outflow of funds due to formal expropriations is not expected before the end of 2007 – the outstanding debt owed to the Canton of Zurich amounting to 300 million Swiss francs can be paid back prematurely and without any additional costs. The repayment of this loan will have a positive influence on the income statement to the value of around 15 million Swiss francs per annum. Furthermore, Flughafen Zürich AG intends to obtain a credit limit of 200 million Swiss francs to cover any financing gap that may arise.

2. In the event that, upon payment of the first formal expropriations, the risk should arise that the total expected costs associated with aircraft noise (formal expropriations, costs for sound insulation and all related operating costs) may exceed 1.1 billion Swiss francs (threshold), the Canton of Zurich would assume the prefinancing of all "old" noise-related liabilities. "Old" noise-related liabilities are liabilities that came into being prior to June 2001, up to which date the Canton of Zurich was holder of the operating licence. As before, the Canton of Zurich is jointly liable for such claims in an external capacity, while in an internal capacity, Flughafen Zürich AG assumed responsibility for these liabilities in the merger agreement dated 14 December 1999. With the newly agreed solution, this general obligation resulting from the merger agreement has been more precisely defined and regulated in greater detail. For the financing of the costs arising from its adoption of responsibility, the Canton of Zurich is to receive a portion of the revenue from noise-related charges in accordance with a specified key. As a result of the adoption of "old" noise-related liabilities by the Canton of Zurich, the requirement for Flughafen Zürich AG to recognise a provision for compensation no longer applies, and the costs will therefore no longer be capitalised.

3. In the event that, in the course of the legal proceedings, the risk cited in point 2 should fall below the level of 1.1 billion Swiss francs (threshold), Flughafen Zürich AG will assume the remaining "old" noise-related liabilities and associated charges.

The objective of this agreement is therefore to limit the overall noise-related risk of Flughafen Zürich AG to "new" noise-related liabilities. The planned capital increase and provision of a special credit limit will create the accounting and financial prerequisites for bearing any noise-related liabilities up to 1.1 billion Swiss francs.

The entry into effect of the supplementary agreement with the Canton of Zurich is subject to the approval of the proposed capital increase by the General Meeting of Shareholders.

No other events occurred between 31 December 2005 and the date on which the consolidated financial statements were authorised for issue by the Board of Directors which would require the modification of any of the carrying amounts of the assets and liabilities of the group or which would have to be disclosed here.

**Report of the Group Auditors
to the General Meeting
Consolidated Financial Statements 2005**

**Report of the Group Auditors to the General
Meeting of**

Flughafen Zürich AG, Zurich

As group auditors, we have audited the consolidated financial statements (balance sheet, income statement, statement of changes in equity, cash flow statement and notes on pages 89 to 124) of Flughafen Zürich AG for the year ended 31 December 2005.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

Without qualifying our opinion, we draw attention to "Significant estimates and assumptions in the application of accounting policies" on page 104 in the notes to the consolidated financial statements. The facts referred to therein could significantly affect the company's financial position and performance. Such impact cannot presently be conclusively determined.

KPMG Fides Peat

Roger Neininger
Swiss Certified Accountant
Auditor in Charge

Marc Ziegler
Swiss Certified
Accountant

Zurich, 8 March 2006

**Financial statements of Flughafen
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Income statement for 2005 and 2004

(Financial statement according to the provisions of commercial law, Flughafen Zürich AG)

(CHF thousand)	Notes	2005	2004
Revenue from sales of products and services		699,176	625,509
Total revenue		699,176	625,509
Depreciation and amortisation		(184,299)	(175,880)
Personnel expenses		(141,160)	(131,265)
Police and security		(78,336)	(73,135)
Expenses for sound insulation measures	(9)	(50,334)	(0)
Maintenance		(36,169)	(33,330)
Sales, marketing, administration		(31,641)	(29,607)
Energy and waste		(21,136)	(19,635)
Other operating expenses		(17,477)	(17,195)
Cost of materials used		(13,086)	(12,023)
Deposits into renovation fund		(5,500)	(5,500)
Ordinary profit before interest and tax		120,038	127,939
Financial result, net	(1)	(107,305)	(96,704)
Extraordinary result, net	(2)	4,182	(3,815)
Non-operating result, net	(3)	0	(676)
Profit before tax		16,915	26,744
Tax		(4,595)	(5,665)
Net profit		12,320	21,079

Balance sheet as of 31 December 2005 and 31 December 2004
(Financial statement according to the provisions of commercial law, Flughafen Zürich AG)

(CHF thousand)	Notes	31.12.2005	31.12.2004
Assets			
Land		112,326	112,267
Buildings, engineering structures		2,301,149	2,355,447
Projects in progress		39,866	65,119
Movables		90,773	82,205
Total property, plant and equipment	(5)	2,544,114	2,615,038
Intangible assets		24,911	25,349
Financial assets and associates	(4)	33,976	27,847
Non-current assets		2,603,001	2,668,234
Inventories		3,198	3,665
Trade receivables		93,787	85,201
Other receivables and prepaid expenses	(6)	20,593	28,911
Cash and cash equivalents, securities	(7)	33,160	43,770
Current assets		150,738	161,547
Total assets		2,753,739	2,829,781
Equity and liabilities			
Share capital		245,615	245,615
Legal reserves			
– Premium		269,254	269,254
– General reserves		19,060	19,060
– Reserves for own shares	(7)	1,735	2,328
Other reserves		79,123	78,540
Available earnings			
– Profit/(loss) brought forward		13,392	(7,687)
– Net profit		12,320	21,079
Equity		640,499	628,189
Debentures and non-current loans	(8)	1,599,698	1,735,563
Provisions for aircraft noise	(9)	161,273	118,341
Renovation fund		102,102	96,602
Non-current provisions	(10)	3,304	2,940
Non-current liabilities		1,866,377	1,953,446
Trade payables		29,222	26,185
Current financial liabilities	(11)	135,877	126,359
Other current debt, accruals and deferrals		72,683	82,156
Current provisions	(12)	9,081	13,446
Current liabilities		246,863	248,146
Total liabilities		2,113,240	2,201,592
Total equity and liabilities		2,753,739	2,829,781

Notes to the financial statements of Flughafen Zürich AG

Accounting policies

1. General remarks

The presentations and explanations below refer to the individual financial statements pursuant to the provisions of Swiss commercial law (Swiss Code of Obligations). These financial statements also serve for tax purposes and form the basis for the statutory business of the General Meeting of Shareholders.

2. Valuation principles

Unless stated otherwise, the same principles apply as those used in the consolidated financial statements in accordance with IFRS.

Property, plant and equipment

In contrast to the consolidated financial statements according to IFRS, the influence of the reverse take-over is irrelevant (revaluation of the FIG property, plant and equipment as of 1 January 2000, including deferred taxes).

Goodwill

The goodwill amounting to 24.8 million Swiss francs arising as a result of the reverse take-over is not relevant in the financial statements according to commercial law.

Renovation fund

As in previous years, the renovation fund, which is used for future renovation in order to preserve the value of existing buildings, was increased by 5.5 million Swiss francs (only in financial statements according to commercial law).

Own shares

In contrast to the consolidated financial statements in accordance with IFRS, holdings of own shares as of 31 December 2005 are reported under securities. Under the heading "Equity", these are reported as prescribed by the provisions of the Swiss Code of Obligations. Furthermore, the distribution of free shares to employees and the unrealised gain on holdings as of 31 December 2005 were charged to the income statement.

Costs associated with the issue of debentures and the conclusion of foreign long-term loans

In the financial statements compiled according to commercial law, the transaction costs are charged directly to the income statement, instead of being capitalised and amortised over the duration of the

debenture or respective long-term loan using the effective interest method, as is the case in the consolidated financial statements prepared in accordance with IFRS.

Financial lease

In the IFRS consolidated financial statements, financial leases are recognised in the balance sheet, while in the financial statements according to commercial law they are treated as off-balance-sheet transactions and disclosed in the notes ("Further details").

Derivative financial instruments

These are not reported in the financial statements according to commercial law.

Noise-related data

Costs associated with formal expropriations qualify as an intangible asset in accordance with the Swiss Code of Obligations. They are capitalised not later than the time at which the counterparty has attained an assertable claim. An equal amount is also recognised as a provision at the same time. Adequate provisions are recognised for liabilities arising from sound insulation measures.

Full amortisation of capitalised costs for formal expropriations is based on the consolidated financial statements at least. Beyond this, special write-offs are carried out from case to case to the extent to which the noise charges recognised as an expense exceed the costs for sound insulation measures and other operating costs in a given period. Any balance of revenue from noise charges after deduction of noise-related costs (sound insulation measures, operating costs, financing costs) is transferred to provisions for aircraft noise.

Current risk situation

The following factors are regarded as the primary sources of risk for the company:

– Hub carrier

The national airline, Swiss, is the main client of Flughafen Zürich AG. In the same way as any other hub airport, Flughafen Zürich AG greatly depends on the operational and financial development of its hub carrier.

– Legal issues

Various internal and external political restrictions could mean that Flughafen Zürich AG will not be able to fully utilise the opportunities it has created for its business development, primarily through expansion stage 5, and instead may give rise to additional investments and costs. These include:

- People's initiative in the canton of Zurich calling for restrictions on flight operations ("Plafonierungsinitiative")
- SIL process (Civil Aviation Infrastructure Plan)
- Rulings by the supervisory authorities relating to landing and take-off procedures
- Unilateral ordinance issued by Germany

– Formal expropriations

As of balance sheet date, no final rulings had been pronounced on compensation claims arising from formal expropriations on the basis of excessive aircraft noise or direct overflights, though a number of cases are pending. Initial conciliation proceedings were held in November 2005 concerning 18 "pilot" cases in the municipality of Opfikon, but no agreements were reached. In these cases, valuation hearings are to take place by the middle of 2006, and this means that first-instance rulings are to be expected by the end of 2006. It is difficult for the Management Board to reliably estimate the costs will result from these proceedings at the present time, since:

- (I) there are gaps in the relevant legislation
- (II) there is a lack of legal practice relating to many fundamental issues, and existing rulings are sometimes conflicting
- (III) the influence of political debate cannot be underestimated
- (IV) the costs will be influenced by the definitive operating regulations, which are still awaiting approval.

The Management Board believes that it will be able to reliably estimate the anticipated costs after the Federal Tribunal (as final instance) has ruled on the fundamental issues raised in the Opfikon pilot cases. A ruling is not expected before 2007.

Flughafen Zürich AG has estimated the potential costs for formal expropriations (risk assessment) at between 800 million and 1.2 billion Swiss francs. However, the effective costs could deviate significantly from the estimated costs in either direction.

Flughafen Zürich AG assumes that these costs would have to be paid over a period of several years. This is assuming that they should even reach the estimated level.

For further details, please refer to the noise-related data provided in the accounting policies.

– Falling demand

Experience over the past few years has shown that civil aviation is a highly volatile business that reacts sensitively to external occurrences (acts of terrorism, outbreaks of disease or epidemics). This means that such events could lead to a fall in demand at Zurich Airport.

– Refund of Swissair payment effected on 4 October 2001 (demand by creditors, trustee)

On 4 October 2001, Swissair Schweizerische Luftverkehr Aktiengesellschaft (Swissair) paid the amount of 21.8 million Swiss francs to Flughafen Zürich AG in settlement of airport charges for the month of July 2001. On 2 October 2001, Swissair had already ceased operation due to lack of liquidity. Swissair then applied for deferment of bankruptcy, which was granted on 5 October 2001. On 23 May 2005, the liquidator of Swissair Schweizerische Luftverkehr AG in Nachlass-liquidation contested the cited payment and demanded that it be refunded, since in his view, Flughafen Zürich AG had been given preference over other creditors. Flughafen Zürich AG regards this payment as lawful. On 17 November 2005, a lawsuit was filed within the stated deadline with the commercial court by Swissair, represented by its liquidator. A ruling by the commercial court is expected in the course of 2006.

The company monitors the above-mentioned risks and their potential consequences for Flughafen Zürich AG on an ongoing basis and, in view of the cost-cutting measures already carried out and a number of other measures which are ready to be implemented as needed, it does not consider the company's continued operation to be in any immediate jeopardy due to these risks.

Notes

Income statement

1) Financial result, net

(CHF thousand)	2005	2004
Interest expenses on debentures and non-current loans	86,300	91,413
Less capitalised interest on borrowings for buildings under construction	(681)	(7,223)
Net interest expenses on debentures and non-current loans	85,619	84,190
Interest difference related to interest rate swap	11,396	12,885
Other interest expenses	7,752	5,655
Other financial expenses	2,551	2,268
Interest expenses on finance lease payments	1,844	1,696
Interest expenses on bank loans	64	24
Financial expenses	109,226	106,718
Interest income on postal cheque accounts and bank deposits/loans	(1,121)	(1,344)
Valuation adjustments of financial assets	(630)	(8,580)
Net foreign exchange gains, interest on arrears	(170)	(90)
Financial income	(1,921)	(10,014)
Total financial result, net	107,305	96,704

Capitalised interest on borrowings for buildings under construction was calculated using an average interest rate of 5.65 percent in 2005 and 5.48 percent in 2004.

2) Extraordinary result, net

(CHF thousand)	2005	2004
Extraordinary income	6,762	580
Extraordinary expenses	(2,580)	(4,395)
Extraordinary result, net	4,182	(3,815)

Extraordinary income in 2005 includes:

- 6.6 million Swiss francs from a non-recurring repayment of accrued costs associated with the Bangalore project, which in the past had been charged to the income statement

Extraordinary income in 2004 includes:

- Non-recurring social insurance contributions amounting to 0.2 million Swiss francs

Extraordinary expenses in 2005 include:

- 2.1 million Swiss francs from losses on disposals of non-current assets

Extraordinary expenses in 2004 include:

- 3.7 million Swiss francs from aperiodical additional VAT charges, including interest on arrears
- 0.5 million Swiss francs in aperiodic security-related expenses

3) Non-operating result, net

(CHF thousand)	2005	2004
Non-operating income	0	5
Non-operating expenses	(0)	(681)
Non-operating result, net	(0)	(676)

This includes all income and expenses not directly associated with the company's business activity.

Balance sheet

4) Financial assets and associates

(CHF thousand)		31.12.2005	31.12.2004
APT Airport Technologies AG, Kloten	Equity share 100%, nom. share capital CHF 1.8 million	1,800	1,800
APT Airport Technologies AG, Zurich Airport	Loan ¹⁾	5,979	5,827
Unique Betriebssysteme AG, Kloten	Equity share 100%, nom. share capital CHF 0.1 million	100	100
Unique Betriebssysteme AG, Kloten	Loan	9	0
Unique Airports Worldwide AG, Kloten	Equity share 100%, nom. share capital CHF 0.1 million	100	100
Unique Airports Worldwide AG, Kloten	Loan ¹⁾	5,743	5,018
Bangalore International Airport Ltd.	Equity share 17%, nom. share capital INR 3,850 million	4,353	0
Swiss International Air Lines AG	Loan ²⁾	15,000	15,000
Swissport Zürich AG	Loan	889	0
Administradora Unique IDC C.A., Venezuela	Equity share 49.5%, nom. share capital VEB 25 million	2	1
Aeropuertos Asociados de Venezuela C.A., Venezuela	Equity share 49.5%, nom. share capital VEB 10 million	1	1
Total financial assets and associates		33,976	27,847

¹⁾ Entirely subject to subordination.

²⁾ On 31 January 2006, Swiss International Air Lines AG repaid its loan (15.0 million Swiss francs) ahead of schedule.

The purpose of APT Airport Technologies AG is to provide technical, operational and commercial design, planning, project implementation and operation of communication and strategic management systems for airports.

The purpose of Unique Betriebssysteme AG is to operate the infrastructure of relevance to Zurich Airport.

Unique Airports Worldwide AG is responsible for advising, operating or owning airports and/or airport-related companies throughout the world.

On 27 June 2005, the bank providing the financing for a new international airport in Bangalore (India) declared that all its requirements had been met for granting the necessary loans (financial close), as a result of which construction work commenced in July 2005. Flughafen Zürich AG holds a 17 percent stake (total, approximately 16 million Swiss francs, of which 4.353 million had been invested as of 31 December) in Bangalore International Airport Ltd. (BIAL), which managed the project and will be building and operating the airport. BIAL is a public/private partnership in which private investors hold a 74 percent stake, and the Indian government and Karnataka State each hold a 13 percent stake. This is the first project of its kind in India. The biggest shareholder is Siemens (40 percent), and Indian construction company Larsen & Toubro Ltd. holds a 17 percent stake.

Flughafen Zürich AG is assisting BIAL with the planning and construction of the airport, as well as with its later operation, on the basis of an operating, management and service agreement that has been concluded for a period of ten years.

As of 31 December 2005, Flughafen Zürich AG provided a bank guarantee to Bangalore International Airport Ltd. in the amount of 11.9 million Swiss francs, or INR 406.6 million (see "Further details"). It represents payments still to be made in future.

Loans to subsidiaries bear interest at normal market rates.

5) Fire insurance values

(CHF thousand)	31.12.2005	31.12.2004
Buildings incl. loading bridges	2,772,149	2,701,222
Movables	697,742	855,742

The figures shown above do not include engineering structures since these cannot be insured via the Building Insurance of the Canton of Zurich (GVZ). Buildings under construction (which are included in projects in progress) are covered by a construction period insurance with GVZ. These figures are therefore not included in this statement. Upon completion, the buildings concerned will be insured on the basis of estimates by GVZ.

6) Other receivables and prepaid expenses

These include the following:

(CHF thousand)	31.12.2005	31.12.2004
Current account with Zurich Airport Staff Pension Fund ¹⁾	0	1,192

¹⁾ See note 11, "Current financial liabilities".

The current account bears interest at normal market rates.

7) Cash and cash equivalents, securities

(CHF thousand)	31.12.2005	31.12.2004
Cash and cash equivalents	31,425	41,442
Own shares	1,735	2,328
Total cash and cash equivalents, securities	33,160	43,770

Reserves for own shares are reported separately under equity.

Number of shares	2005	2004
Holdings at beginning of financial year	20,407	290,611
Acquisitions (at applicable market price)	50,033	265,000
Sales (at applicable market price)	(50,605)	(526,379)
Free distribution of shares	(7,994)	(8,825)
Holdings at end of financial year	11,841	20,407

No own shares were held as treasury stock as of 31 December 2005 (31 December 2004: 605).

8) Debentures and non-current loans

(CHF thousand)	31.12.2005	31.12.2004
Japanese private placement	421,173	421,173
US private placement	365,750	365,750
Liabilities towards banks arising from US car park lease	309,775	355,640
Non-current loan from Canton of Zurich	300,000	300,000
Debentures	203,000	293,000
Total debentures and non-current loans	1,599,698	1,735,563

The following **non-current financial liabilities** are fixed interest-bearing borrowings:

Description	Nominal amount in CHF thousand as of 31.12.2005	Duration	Interest rate	Early repayment	Interest payment dates
Debentures	90,000	1996–2006 ¹⁾	4.625 %	no	12 April
	75,000	1995–2007	5.000 %	no	28 September
	128,000	2001–2009	4.250 %	no	26 March
Subtotal, debentures	293,000				
Japanese					23 May/
private placement	421,173	2003–2024	5.730 %	no	23 November
Liabilities towards banks	309,775				
arising from US car park lease	45,865 ²⁾	2003–2012	3.606 %	from 2005	20 December
					11 April/
US private placement	365,750	2003–2015	4.7525 %	from 2011	11 October
Non-current loan					
from Canton of Zurich	300,000	2002–2012	5.000 %	no	19 July

¹⁾ Reported under current financial liabilities, since repayment due on 12 April 2006.

²⁾ Reported under current financial liabilities, since second repayment tranche due on 20 December 2006.

9) Provisions for aircraft noise

(CHF thousand)	31.12.2005	31.12.2004
Provisions for aircraft noise as of 1 January	118,341	79,706
Total revenues from noise charges	50,334	49,616
Total costs for sound insulation and other measures	(10,963)	(13,122)
Increased provisions for aircraft noise	39,371	
Provisions for aircraft noise before operating and imputed costs	157,712	116,200
Noise-related operating costs	(4,136)	(3,243)
Imputed interest	7,697	5,384
Total provisions for aircraft noise as of 31 December	161,273	118,341

Total expenditure for sound-insulating measures for the 2005 financial year includes the following:

(CHF thousand)	2005
Total costs for sound insulation and other measures	10,963
Increased provisions for aircraft noise	39,371
Total expenditure for sound insulation measures	50,334

10) Non-current provisions

(CHF thousand)	31.12.2005	31.12.2004
Pension liabilities	1,804	1,440
Provisional tenancy agreements	1,500	1,500
Total non-current provisions	3,304	2,940

11) Current financial liabilities

(CHF thousand)	31.12.2005	31.12.2004
Debenture (repayment 12.4.2006/5.7.2005)	90,000	82,000
Current liabilities towards banks arising from US car park lease	45,865	44,359
Current account with Zurich Airport Staff Pension Fund ¹⁾	12	0
Total current financial liabilities	135,877	126,359

¹⁾ See note 6, "Other receivables and pre-paid expenses".

The current account bears interest at normal market rates.

12) Current provisions

(CHF thousand)	31.12.2005	31.12.2004
Amounts due to personnel (holidays and overtime, bonuses)	8,509	9,107
Other liabilities	572	572
Tax liabilities	0	3,767
Total current provisions	9,081	13,446

13) Further details

Major shareholders

The following shareholders or groups of shareholders hold more than five percent of the voting rights:

	2005	2004
Canton of Zurich (including BVK pension fund)	45.60 %	46.76 %
City of Zurich (including pension fund of the City of Zurich)	5.38 %	5.40 %

14) Miscellaneous

(CHF thousand)	2005	2004
In the year under review, through the dissolution of the employers' reserves in the Zurich Airport Staff Pension Fund, personnel expenses were reduced by	0	1,500
Finance lease liabilities not reported in the balance sheet ¹⁾	78,291	80,894

In connection with the US car park lease, the utilisation rights to multi-storey car parks 1, 2, 3 and 6 serve as collateral.

For the cross currency interest rate swaps relating to the US private placement and Japanese private placement, as of balance sheet date there were 3.2 million Swiss francs provided as collateral in the form of cash and cash equivalents (31 December 2004: 18.1 million) and 116.0 million Swiss francs provided as collateral in the form of letters of credit (31 December 2004: 155.0 million).

As of 31 December 2005, Flughafen Zürich AG provided a bank guarantee to the Bangalore International Airport Ltd. in the amount of 11.9 million Swiss francs or INR 406.6 million (see note 4, "Financial assets"). It represents payments still to be made in future.

There are no other facts present which would require disclosure in accordance with Article 663b of the Swiss Code of Obligations.

¹⁾ See "Accounting policies", section 2, "Valuation principles".

15) Events occurring after the balance sheet date

The Board of Directors authorised the 2005 financial statements according to the provisions of the Swiss Code of Obligations (OR) for issue on 8 March 2006. These also have to be approved by the General Meeting of Shareholders.

On 8 March 2006, Flughafen Zürich AG and the Canton of Zurich signed a supplement to the merger agreement dated 14 December 1999 regulating the sustainable reduction and limitation of risks to Flughafen Zürich AG associated with aircraft noise. The main content of this supplementary agreement is as follows:

1. Flughafen Zürich AG is obliged to implement measures by means of which the ability to tolerate balance sheet and financing risks associated with aircraft noise up to approximately 1.1 billion Swiss francs can be assured. For this purpose, on 11 April 2006 the Board of Directors is to ask the General Meeting of Shareholders to approve a capital increase with a market value of approximately 300 million Swiss francs in order to strengthen the company's equity. Since Flughafen Zürich AG will not need to use these funds in the immediate future – an effective outflow of funds due to formal expropriations is not expected before the end of 2007 – the outstanding debt owed to the Canton of Zurich amounting to 300 million Swiss francs can be paid back prematurely and without any additional costs. The repayment of this loan will have a positive influence on the income statement to the value of around 15 million Swiss francs per annum. Furthermore, Flughafen Zürich AG intends to obtain a credit limit of 200 million Swiss francs to cover any financing gap that may arise.
2. In the event that, upon payment of the first formal expropriations, the risk should arise that the total expected costs associated with aircraft noise (formal expropriations, costs for sound insulation and all related operating costs) may exceed 1.1 billion Swiss francs (threshold), the Canton of Zurich would assume the prefinancing of all "old" noise-related liabilities. "Old" noise-related liabilities are liabilities that came into being prior to June 2001, up to which date the Canton of Zurich was holder of the operating licence. As before, the Canton of Zurich is jointly liable for such claims in an external capacity,

while in an internal capacity, Flughafen Zürich AG assumed responsibility for these liabilities in the merger agreement dated 14 December 1999. With the newly agreed solution, this general obligation resulting from the merger agreement has been more precisely defined and regulated in greater detail. For the financing of the costs arising from its adoption of responsibility, the Canton of Zurich is to receive a portion of the revenue from noise-related charges in accordance with a specified key. As a result of the adoption of "old" noise-related liabilities by the Canton of Zurich, the requirement for Flughafen Zürich AG to recognise a provision for compensation no longer applies, and the costs will therefore no longer be capitalised.

3. In the event that, in the course of the legal proceedings, the risk cited in point 2 should fall below the level of 1.1 billion Swiss francs (threshold), Flughafen Zürich AG will assume the remaining "old" noise-related liabilities and associated charges.

The objective of this agreement is therefore to limit the overall noise-related risk of Flughafen Zürich AG to "new" noise-related liabilities. The planned capital increase and provision of a special credit limit will create the accounting and financial prerequisites for bearing any noise-related liabilities up to 1.1 billion Swiss francs.

The entry into effect of the supplementary agreement with the Canton of Zurich is subject to the approval of the proposed capital increase by the General Meeting of Shareholders.

No other events occurred between 31 December 2005 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 the modification of any of the carrying amounts of the assets and liabilities of the financial statements according to the provisions of the Swiss Code of Obligations or which would have to be disclosed here.

Proposal by the Board of Directors concerning the distribution of available earnings for 2005

The Board of Directors proposes to the General Meeting of Shareholders that the available earnings of 25,712,034 Swiss francs should be used as follows:

(CHF)

Allocation to legal reserves ¹⁾	0
Payment of a gross dividend of CHF 1.00 ²⁾	4,912,300
To be carried forward	20,799,734
Total available earnings	25,712,034

¹⁾ No allocation is being made to the legal reserves, 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 entitled to a dividend. For this reason, the reported dividend sum may be correspondingly lower.

If this proposal is approved, then the dividend for the year 2005 will be CHF 1.00 gross per share.
After deduction of withholding tax of 35%, the shareholders will receive a net dividend of CHF 0.65.

**Report of the Statutory Auditors
to the General Meeting
Financial Statements 2005**

**Report of the Statutory Auditors to the General
Meeting of**

Flughafen Zürich AG, Zurich

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes on pages 128 to 138) of Flughafen Zürich AG for the year ended 31 December 2005.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

Without qualifying our opinion, we draw attention to the current risk situation described on page 131 in the notes to the financial statements. The facts referred to therein could significantly affect the company's financial position and performance. Such impact cannot presently be conclusively determined.

KPMG Fides Peat

Roger Neininger
Swiss Certified Accountant
Auditor in Charge

Marc Ziegler
Swiss Certified
Accountant

Zurich, 8 March 2006



Self Service Restaurant
Shopping



Information



E

Gates



No Pets Allowed
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