

ANNUAL REPORT OF
FLUGHAFEN ZÜRICH AG

2016



29 JANUARY

Triple Seven and new lounge for Swiss International Air Lines

Home carrier SWISS received the first of ten Boeing 777-300ERs as part of the renewal of its long-haul fleet. At the same time, SWISS opened a new lounge complex covering over 3,300m² in Dock E.



25 FEBRUARY

LUPO: Zurich Airport to retain its capacity for development

The Confederation's new report on aviation policy is published. Zurich Airport must retain its capacity for development and be able to do so in line with economic demand.

24 MARCH

Another award for freight handling

Zurich Airport was presented with the Air Cargo Excellence Award 2016 for its freight performance. It took first place once again in the "Airports Europe – Up to 399,999 Tonnes" category.

1 APRIL

Management Board complete again

Two experienced and recognised leaders joined the Management Board: Stefan Gross (on 1 February) and Daniel Scheifele.

18 APRIL

Indian investment sold

Flughafen Zürich AG signs an agreement to sell its 5% stake in Bangalore International Airport Ltd. for USD 48.9 million. The sale is set to be completed in the first quarter of 2017.

1 / 15 JUNE

New curbside lanes at Zurich Airport commissioned

The renovated, upgraded curbside lanes on the departures and arrivals level were reopened step by step following a construction period of around three years.

25 / 26 JUNE AND 10 / 11 SEPTEMBER

Two airport experience weekends at Zurich Airport

Zurich Airport invited visitors to its first-ever airport experience weekends. The largely free events for the public were a success, with some 24,000 visitors on both weekends.



1 JULY

First commercial flight for the Bombardier C Series

The first Bombardier CS100 from the SWISS fleet landed in Zurich. The new aircraft, which is setting new environmental standards, took its first-ever commercial flight on 15 July.

4 JULY

Start of construction work in Zone West

Construction work for the development of Zone West began. The aim is to expand the apron areas in the western part of the airport premises.

17 JULY

Passenger record: Zurich Airport handles over 100,000 passengers on one day for the first time

This new record number was exceeded again on another six days.

22 JULY

South-side sound insulation concept implemented

Flughafen Zürich AG launched a two-year concept aimed at protecting local residents from being woken by morning southern approaches.

25 JULY

New contract with duty free provider Dufry AG

Flughafen Zürich AG extended the contract with its long-standing partner Dufry AG to 2028, ahead of schedule.

24 AUGUST

Second construction phase of "The Circle" launched

Flughafen Zürich AG and co-owner Swiss Life AG decided to initiate the second construction phase of "The Circle". Both phases will therefore be implemented simultaneously.



1 SEPTEMBER

New airport charges

The new, lower airport charges took effect. These will apply for four years.

5 SEPTEMBER

Popular initiative "Give people the vote on runway modifications!"

Favourable ruling on the popular initiative "Give people the vote on runway modifications!" – the Cantonal Parliament ruled that a referendum is now possible, even if it rejects a request for a possible future runway extension.

6 SEPTEMBER

Zurich Airport once again Europe's leading airport

For the thirteenth time in succession, Zurich Airport received the prestigious World Travel Award for its customer-friendliness and general fulfilment of quality standards.

8 SEPTEMBER

Arrestor system at the end of runway 28

The construction of the Engineered Materials Arresting System (EMAS) at the end of runway 28 was completed. Various noise control measures were implemented in order to minimise the impact on local residents.

27 SEPTEMBER

Sectoral Aviation Infrastructure Plan (SAIP) solves current problems, but does not take long-term perspectives into account

The Federal Office of Civil Aviation (FOCA) submitted a draft of the revised Sectoral Aviation Infrastructure Plan (SAIP2) for consultation. The plan solves important current issues, but does not offer any solutions on how to handle the expected increase in demand.

6 DECEMBER

New terminal in Belo Horizonte, Brazil

The new 600-metre-long terminal with 17 passenger loading bridges opened in Belo Horizonte, Brazil.



14 DECEMBER

Jelmoli new anchor tenant at Zurich Airport

Jelmoli opted for Zurich Airport as its second business location. Flughafen Zürich AG concluded a contract with Jelmoli for three stores at Zurich Airport – including one in the brand houses of "The Circle".

20 DECEMBER

Extension of car park P6 completed

Car park P6, which has seen ongoing renovation and extension works over several years, opened for operation. It offers a total of 7,500 parking spaces.

31 DECEMBER

More than 27 million passengers for the first time

A new passenger record: in 2016, 27.7 million passengers passed through Zurich Airport.



KEY DATA

| (CHF 1,000) | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|-----------|-----------|-----------|-----------|-----------|
| Total revenue | 948,820 | 975,094 | 963,479 | 988,973 | 1,012,804 |
| of which aviation revenue | 596,411 | 601,437 | 574,959 | 597,389 | 620,402 |
| of which non-aviation revenue | 352,409 | 373,657 | 388,520 | 391,584 | 392,402 |
| Operating expenses | -558,143 | -448,381 | -439,981 | -486,157 | -434,000 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 390,677 | 526,713 | 523,498 | 502,816 | 578,804 |
| EBITDA margin (in %) | 41.2 | 54.0 | 54.3 | 50.8 | 57.1 |
| Earnings before interest and tax (EBIT) | 171,936 | 302,003 | 294,622 | 274,644 | 337,350 |
| EBIT margin (in %) | 18.1 | 31.0 | 30.6 | 27.8 | 33.3 |
| Profit | 94,732 | 137,052 | 205,921 | 179,807 | 248,018 |
| Cash flow from operating activities | 439,920 | 458,993 | 460,726 | 456,177 | 471,869 |
| Cash flow from investing activities | -185,046 | -171,239 | -220,401 | -119,524 | -167,482 |
| Invested capital as at reporting date ¹⁾ | 3,383,681 | 3,413,507 | 3,200,107 | 3,186,427 | 3,215,677 |
| Average invested capital ¹⁾ | 3,298,117 | 3,398,594 | 3,306,807 | 3,193,267 | 3,201,052 |
| Return on average invested capital (ROIC in %) | 4.1 | 7.1 | 7.1 | 6.8 | 8.4 |
| Equity as at reporting date | 1,859,803 | 2,051,618 | 2,140,522 | 2,212,437 | 2,260,149 |
| Return on equity (in %) | 5.2 | 7.0 | 9.8 | 8.3 | 11.1 |
| Equity ratio (in %) | 45.7 | 50.5 | 53.6 | 54.7 | 55.6 |
| Interest-bearing liabilities (net) ²⁾ | 826,230 | 692,758 | 372,202 | 174,683 | 102,020 |
| Interest-bearing liabilities (net) / EBITDA | 2.11x | 1.32x | 0.71x | 0.35x | 0.18x |

Key operational data

| | | | | | |
|--|------------|------------|------------|------------|------------|
| Number of passengers | 24,802,400 | 24,865,138 | 25,477,622 | 26,281,228 | 27,666,428 |
| Number of flight movements | 270,027 | 262,227 | 264,970 | 265,095 | 269,160 |
| Freight (in tonnes) | 418,751 | 415,362 | 429,830 | 411,780 | 433,577 |
| Number of full-time positions as at reporting date ³⁾ | 1,365 | 1,478 | 1,450 | 1,474 | 1,523 |
| Number of employees as at reporting date ³⁾ | 1,615 | 1,736 | 1,707 | 1,721 | 1,773 |

Key data for shareholders of Flughafen Zürich AG⁴⁾

| | | | | | |
|--|------------|------------|------------|------------|------------|
| Number of issued shares | 30,701,875 | 30,701,875 | 30,701,875 | 30,701,875 | 30,701,875 |
| Ordinary dividend per share (in CHF) | 1.90 | 2.00 | 2.70 | 3.00 | 3.20 |
| Payout ratio (in %) ⁵⁾ | 61.6 | 44.8 | 40.3 | 51.2 | 39.6 |
| Additional dividend per share (in CHF) | n/a | n/a | n/a | 3.20 | 3.20 |
| Equity per share (in CHF) | 60.58 | 66.82 | 69.72 | 72.06 | 73.62 |
| Basic earnings per share (in CHF) | 3.10 | 4.47 | 6.71 | 5.85 | 8.07 |
| Diluted earnings per share (in CHF) | 3.10 | 4.47 | 6.70 | 5.85 | 8.07 |

1) Invested capital includes equity, interest-bearing debt (and until 2014 the fair values of the hedging instruments).

2) Interest-bearing liabilities (net) include interest-bearing debt (and until 2014 the fair values of hedging instruments) less cash and cash equivalents, interest-bearing current and non-current financial assets and fixed-term deposits.

3) From 2013 including employees of the consolidated A-port Operaciones S.A. and its subsidiaries.

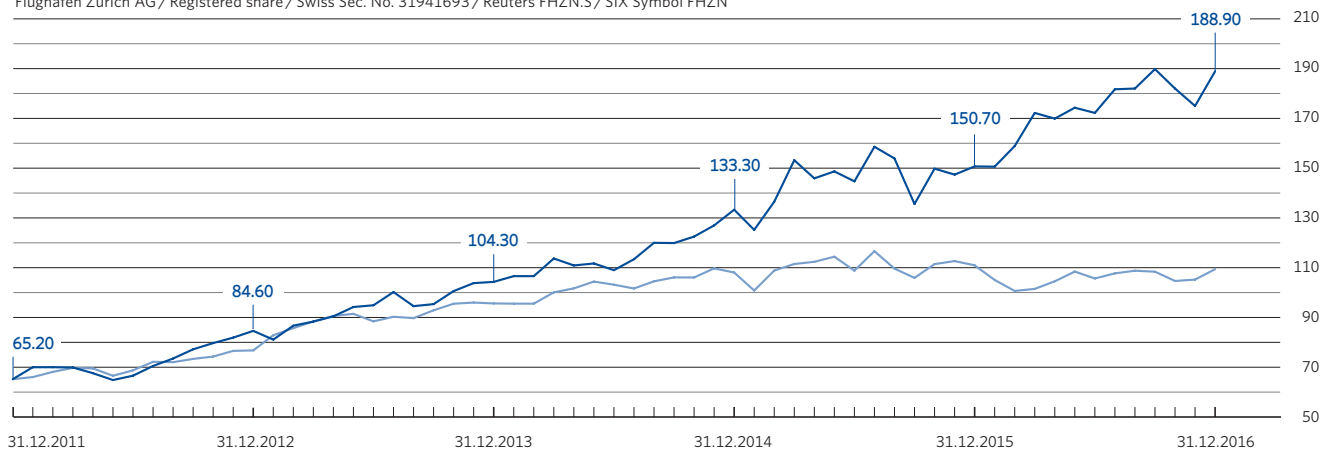
4) A 5-for-1 share split was implemented on 6 May 2016. For the purpose of comparison, the previous year's figures have been adjusted accordingly.

5) Additional dividend from capital contribution reserves not included.

SHARE PRICE TREND

(in CHF)

Flughafen Zürich AG / Registered share / Swiss Sec. No. 31941693 / Reuters FHZN.S / SIX Symbol FHZN



● FHZN ● SPI indexed

KEY DATA EXCLUDING THE INFLUENCE OF AIRCRAFT NOISE

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

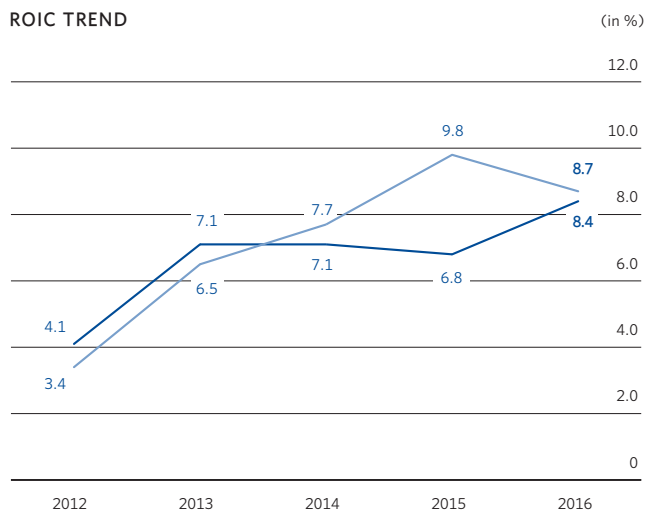
As the consolidated financial statements of Flughafen Zürich AG include noise charges, noise-related expenses and noise-related items in the balance sheet, key figures are also stated excluding the influence of aircraft noise for the shareholders. In the long term, noise-related items will not impact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

The following adjusted key figures reflect all significant noise-related items in the income statement and balance sheet:

| (CHF 1,000) | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|-----------|-----------|-----------|-----------|-----------|
| Total revenue | 896,764 | 920,737 | 953,280 | 978,200 | 1,001,124 |
| of which aviation revenue | 544,355 | 547,080 | 564,760 | 586,616 | 608,722 |
| of which non-aviation revenue | 352,409 | 373,657 | 388,520 | 391,584 | 392,402 |
| Operating expenses | -554,332 | -444,494 | -436,089 | -385,884 | -430,461 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 342,432 | 476,243 | 517,191 | 592,316 | 570,663 |
| EBITDA margin (in %) | 38.2 | 51.7 | 54.3 | 60.6 | 57.0 |
| Earnings before interest and tax (EBIT) | 131,440 | 259,282 | 295,798 | 369,881 | 334,798 |
| EBIT margin (in %) | 14.7 | 28.2 | 31.0 | 37.8 | 33.4 |
| Profit | 80,590 | 96,016 | 211,440 | 269,224 | 245,377 |
| Cash flow from operating activities | 414,262 | 428,712 | 468,423 | 472,537 | 484,259 |
| Cash flow from investing activities | -173,283 | -165,270 | -238,976 | -152,129 | -189,336 |
| Invested capital as at reporting date ¹⁾ | 3,193,750 | 3,172,650 | 2,974,659 | 3,030,840 | 3,065,907 |
| Average invested capital ¹⁾ | 3,115,257 | 3,183,200 | 3,073,655 | 3,002,750 | 3,048,373 |
| Return on average invested capital (ROIC in %) | 3.4 | 6.5 | 7.7 | 9.8 | 8.7 |
| Equity as at reporting date | 1,669,872 | 1,810,761 | 1,915,074 | 2,076,406 | 2,121,478 |
| Return on equity (in %) | 4.9 | 5.5 | 11.3 | 13.5 | 11.7 |
| Equity ratio (in %) | 47.8 | 52.3 | 57.9 | 61.3 | 61.5 |
| Interest-bearing liabilities (net) ²⁾ | 1,107,887 | 994,706 | 871,017 | 651,169 | 566,355 |
| Interest-bearing liabilities (net) / EBITDA | 3.24x | 2.09x | 1.68x | 1.10x | 0.99x |
| Key data for shareholders of Flughafen Zürich AG ⁴⁾ | | | | | |
| Payout ratio (in %) ⁵⁾ | 72.4 | 64.0 | 39.2 | 34.2 | 40.0 |
| Equity per share (in CHF) | 54.39 | 58.98 | 62.38 | 67.63 | 69.10 |
| Basic earnings per share (in CHF) | 2.64 | 3.13 | 6.89 | 8.77 | 7.98 |
| Diluted earnings per share (in CHF) | 2.64 | 3.13 | 6.88 | 8.76 | 7.98 |

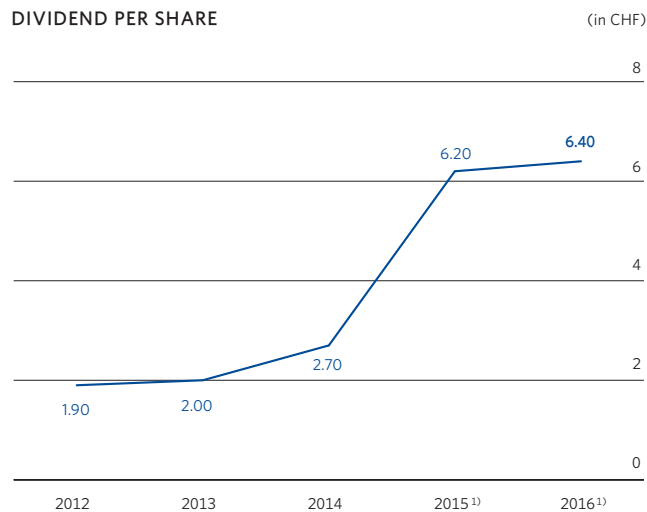
See previous page for an explanation of the footnotes.

ROIC TREND



● incl. aircraft noise ● excl. aircraft noise

DIVIDEND PER SHARE



1) Incl. additional dividend from capital contribution reserves.

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ADDRESS TO SHAREHOLDERS

The previous year once again brought a new passenger record. Key construction projects on the apron and the landside are progressing. Capacity constraints at peak times and punctuality remain two of our greatest challenges.



ANDREAS SCHMID
CHAIRMAN OF THE BOARD OF DIRECTORS



STEPHAN WIDRIG
CHIEF EXECUTIVE OFFICER

Dear Shareholders,
Dear Sir or Madam

2016 was a challenging but successful year for Flughafen Zürich AG. Important decisions were made, including on the Sectoral Aviation Infrastructure Plan (SAIP), on test cases concerning eastern and southern approach routes and on airport charges. Although Swiss retail remains under pressure, retail business at Zurich Airport is experiencing growth despite the downward trend in bricks-and-mortar stores.

The company can also present excellent results: Flughafen Zürich AG generated profit of CHF 248.0 million, 37.9% more than in 2015. The Board of Directors is proposing to the General Meeting of Shareholders the payment of an ordinary dividend of CHF 3.20 per share and payment of an additional dividend from reserves from capital contributions also of CHF 3.20 per share.

Another new record for passenger numbers

In the past year, Zurich Airport handled a total of 27,666,428 passengers, representing a year-on-year increase of 5.3%. The number of local passengers rose by 6.5% to 20.0 million. Although the transfer share of all passengers declined in comparison to 2015 (–0.9 percentage points), the number of transfer passengers at Zurich Airport increased by 2.3% to 7.6 million. In 2016 there were 269,160 flight movements, representing an increase of 1.5% compared with 2015. Freight volume rose by 5.3% in 2016 compared with 2015. A total of 433,577 tonnes of freight were transported during the reporting period.

Swiss aviation policy report and the Sectoral Aviation Infrastructure Plan

In the Swiss aviation policy report (LUPO), the Federal Council set out how it intends to strengthen aviation as a key pillar of its transport policy, taking economic, environmental and social factors into consideration. The national airports and the intercontinental hub of Zurich in particular are recognised as being important parts of Switzerland's basic infrastructure and key elements of its overall transport system.

At the end of September 2016, the Federal Office of Civil Aviation (FOCA) published an amendment to the Sectoral Aviation Infrastructure Plan (SAIP2). The aim is to enable improvements to the flight operation safety margin as well as to the performance of Zurich Airport. Measures to ensure the robust operation of the East Concept are also to be taken into account.

Flughafen Zürich AG welcomes the proposed changes. However, SAIP2 does not satisfy the current or future demand for slots during peak daytime hours. This means that the capacity constraints will remain.

New airport charges

In response to an application by Flughafen Zürich AG, FOCA ordered a modification of the charges for Zurich Airport, which took effect on 1 September 2016. This was particularly relevant for

passenger-related airport charges which were reduced from CHF 36.40 to CHF 35.00 for local passengers and from CHF 18.90 to CHF 16.00 for transfer passengers. At the same time, landing and aircraft parking charges were also included in the revised charge regulations. The new charges will apply for four years.

Home carrier SWISS invests in fleet and lounge

In 2016, our home carrier SWISS incorporated two new types of aircraft into its fleet. Since the beginning of the year it has also been operating Boeing 777-300ER aircraft on its long-haul routes. These offer significantly more seats than the Airbus A340s they replaced. In July, SWISS also set another milestone in the modernisation of its fleet by integrating the Bombardier C Series for short-haul destinations. SWISS is planning to increase its seating capacity by around 20% by 2018.

In addition, the airline has also launched its new lounge concept. Covering a total area of more than 3,300m² and located right by the departure gates for long-haul flights in Dock E, the new SWISS First Class, Senator and Business Class lounge was opened at the beginning of 2016.

Arrestor system

Following a safety review and to improve the safety margin, FOCA requested that the airport operator install an arrestor system at the end of runway 28. The installation was completed during a construction period of around three months in summer 2016.

Curbside lanes and parking products

Following a construction period lasting some three years, the renovated and upgraded curbside lanes were re-opened phase by phase in mid-2016. The extended multi-storey car park P6 also opened at the end of the year. Over a three-year construction period involving investment of some CHF 80 million, around 3,500 parking spaces were added on its eastern side. Offering some 7,500 parking spaces, P6 is now one of the largest multi-storey car parks in Europe.

Zone A

According to the forecast trend in traffic volume, the baggage sorting system – one of the main infrastructures at Zurich Airport – will soon reach the limits of its capacity. In addition, new security screening equipment must be installed and important components of the facilities replaced throughout the airport in order to meet EU requirements. Zone A must therefore be extensively modernised. In the reporting period, plans were drawn up to move the tenants and define compensatory measures, and the first preliminary measures for the civil engineering works were launched. The overall construction project in Zone A is scheduled to run until 2023. Based on a rough cost estimate, the investment required amounts to approximately CHF 400 million.

Retail developments

The retail offering has been enhanced by various new openings, as well as expansions and optimisations from the previous years, which are having a positive impact on revenue. Purchasing behaviour is changing, making new sales-boosting measures and close cooperation with partners correspondingly important. The extension of the duty-free contract with Dufry AG ahead of schedule was a key milestone in 2016. All of the duty-free areas can thus be refurbished early and the related revenue strengthened for the longer term. The airport's digital competence and presence are also being continually expanded. One example is the further development of the Zurich Airport app, which was launched in the spring of 2016.

"The Circle"

Together with co-owner Swiss Life AG, Flughafen Zürich AG decided to launch the second construction phase, meaning that both phases will now be implemented simultaneously. Most of the excavation work has been completed. Dufry AG and Jelmoli – the House of Brands were successfully acquired as additional major tenants. Promising talks are under way for the art and training modules. The office space sector still presents a great challenge in the current environment. However, discussions with prospective tenants are showing that the excellent location coupled with modern office concepts makes for a highly attractive product.

Investments in foreign operations

In April 2016, Flughafen Zürich AG signed an agreement to sell its 5 % stake in Bangalore International Airport Ltd. The agreed purchase price is USD 48.9 million before tax. The transaction is set to be completed in the first quarter of 2017. The sale of this shareholding completes an operationally highly successful project for Flughafen Zürich AG with a substantial one-off gain.

The airport in the Brazilian city of Belo Horizonte is making excellent progress. The new Terminal 2 is in operation, while Terminal 1 is being gradually renovated. Flughafen Zürich AG wants to continue to boost its presence in Brazil despite the current recession, owing to the great potential for growth in air transport.

Customer experience and awards

This year's Airport Service Quality (ASQ) Award placed Zurich Airport second in Europe. This prestigious award presented by Airports Council International (ACI) is regarded as the benchmark for airport excellence.

As in previous years, Zurich Airport once again won the World Travel Award as "Europe's Leading Airport" – one of the most coveted accolades in the travel industry.

Changes in Board of Directors and Management Board

Ulrik Svensson, member of the Board of Directors of Flughafen Zürich AG since 2008, is now Chief Financial Officer at Deutsche Lufthansa AG. He left the Board of Directors at the end of 2016 to take up his new role. We would like to offer our sincere thanks to Mr Svensson for his long-standing, dedicated commitment to Zurich Airport.

The Non-Aviation division was divided into the Commercial and Real Estate divisions at the beginning of 2016. Stefan Gross and Daniel Scheifele are two experienced and recognised leaders heading the new divisions.

Daniel Schmucki, the long-standing and distinguished Chief Financial Officer (CFO), was appointed CFO of the SIX Group and left the company at the end of January 2017. He played a key role in the development of Flughafen Zürich AG from the beginning. During his time as CFO, profitability steadily improved, debt was reduced and the financing of the company completely overhauled. We would like to extend our warmest thanks to Daniel Schmucki for his great commitment and services.

Lukas Brosi was appointed as his successor to head up the Finance division. He joined the company as Group Treasurer in 2009 and took over the reins three years ago as Head Financial Services and as the Chief Financial Officer's deputy.

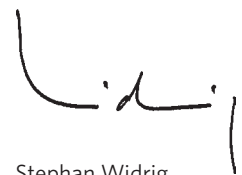
Outlook and thanks

Flughafen Zürich AG is operationally, financially and strategically strongly placed. We must retain our development prospects, particularly with regard to capacity at peak times. This is in the interest of the Canton of Zurich, the economic region and Switzerland as a whole. Our sincere thanks are due to all those who work on behalf of the company and Zurich Airport – whether publicly or behind the scenes – for their untiring commitment.

Zurich Airport, 2 March 2017



Andreas Schmid
Chairman of the
Board of Directors



Stephan Widrig
Chief Executive Officer

CORPORATE PROFILE

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

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

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

ORGANISATIONAL STRUCTURE

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

Aviation

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

BOARD OF DIRECTORS

Chairman ANDREAS SCHMID

Audit & Finance Committee
Chairman: ULRIK SVENSSON
(until 31 December 2016)

Nomination & Compensation Committee
Chairman: KASPAR SCHILLER

Public Affairs Committee
Chairwoman: CARMEN WALKER SPÄH

MANAGEMENT BOARD

Chief Executive Officer
STEPHAN WIDRIG

Aviation
STEFAN CONRAD, COO

Commercial
STEFAN GROSS, CCO
(as of 1 February 2016)

Real Estate
DANIEL SCHEIFELE, CREO
(as of 1 April 2016)

Finance
DANIEL SCHMUCKI, CFO
(until 31 January 2017)

Commercial

The Commercial division represents the interests of the airport's end customers. In this capacity, it is responsible for support for the airport's commercial centres, its landside traffic and marketing. The division organises attractive shopping, catering and services in both the airside and landside zones, and operates the second-largest shopping centre in Switzerland in terms of sales. Other tasks include overall responsibility for all landside transport services, the airport's parking products and its connections to public transport as well as all the service and information points, the design of the airport's digital presence and its overarching marketing and branding.

Real Estate

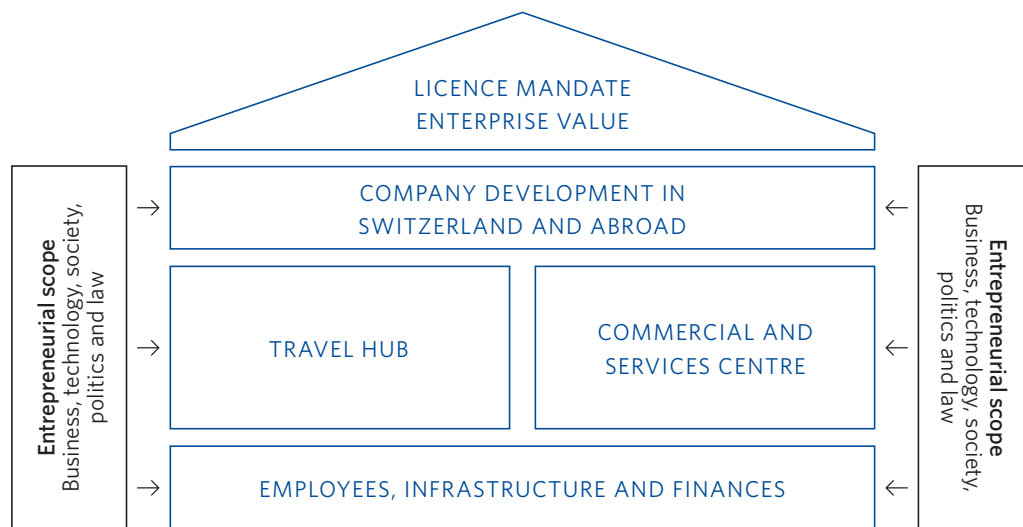
The Real Estate division is responsible for the development, construction and the commercial, technical and infrastructural operation of all the buildings and associated building systems at Zurich Airport. Its portfolio ranges from the terminal buildings, office centres, logistics and hangar buildings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

Finance

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

Staff units

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



FLUGHAFEN ZÜRICH AG

Vision

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

Mission

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

Strategy

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

- using its resources (employees, infrastructure, finances) sustainably and optimally exploiting entrepreneurial scope,
- constantly developing the airport as a high-quality travel hub while also ensuring safety and making optimum use of the available infrastructure and technology,
- using the commercial and services centre (real estate, commerce, services) to expand flight operations, bring the fascination of flying to life, and generate profits which allow the whole system at Zurich Airport to be further developed to a high quality standard, and
- utilising its expertise and experience in projects in Switzerland and abroad to develop new revenue streams in the medium to long term.

Principles of conduct

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

Management principles

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

Commitment to sustainability

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

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

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



180 sec.

CONNECTING THE AIRSIDE CENTER
AND DOCK E

Zurich Airport's Skymetro covers the 1.1 kilometres in less than three minutes. The underground air cushion shuttle moves up to 8,200 passengers an hour in each direction between the Airside Center and Dock E.

BUSINESS DEVELOPMENT

In the past financial year, revenue topped the billion mark for the very first time, with both aviation and non-aviation streams performing well. At the same time, over 27.7 million passengers flew via Zurich Airport in the last financial year, an increase of 5.3 %.

KEY DATA

| (CHF 1,000) | 2016 | 2015 | Change in % |
|---|-----------------|------------|-------------|
| Total revenue | 1,012,804 | 988,973 | 2.4 |
| of which aviation revenue | 620,402 | 597,389 | 3.9 |
| of which non-aviation revenue | 392,402 | 391,584 | 0.2 |
| Operating expenses | -434,000 | -486,157 | -10.7 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 578,804 | 502,816 | 15.1 |
| EBITDA margin (in %) | 57.1 | 50.8 | |
| Earnings before interest and tax (EBIT) | 337,350 | 274,644 | 22.8 |
| EBIT margin (in %) | 33.3 | 27.8 | |
| Profit | 248,018 | 179,807 | 37.9 |
| Cash flow from operating activities | 471,869 | 456,177 | 3.4 |
| Cash flow from investing activities | -167,482 | -119,524 | 40.1 |
| Invested capital as at reporting date ¹⁾ | 3,215,677 | 3,186,427 | 0.9 |
| Average invested capital ¹⁾ | 3,201,052 | 3,193,267 | 0.2 |
| Return on average invested capital (ROIC, in %) | 8.4 | 6.8 | |
| Equity as at reporting date | 2,260,149 | 2,212,437 | 2.2 |
| Return on equity (in %) | 11.1 | 8.3 | |
| Equity ratio (in %) | 55.6 | 54.7 | |
| Interest-bearing liabilities (net) ²⁾ | 102,020 | 174,683 | -41.6 |
| Interest-bearing liabilities (net) / EBITDA | 0.18x | 0.35x | |
| Key operational data | | | |
| Number of passengers | 27,666,428 | 26,281,228 | 5.3 |
| Number of flight movements | 269,160 | 265,095 | 1.5 |
| Freight (in tonnes) | 433,577 | 411,780 | 5.3 |
| Number of full-time positions as at reporting date | 1,523 | 1,474 | 3.3 |
| Number of employees as at reporting date | 1,773 | 1,721 | 3.0 |
| Key data for shareholders of Flughafen Zürich AG ³⁾ | | | |
| Number of issued shares | 30,701,875 | 30,701,875 | |
| Ordinary dividend per share (in CHF) | 3.20 | 3.00 | 6.7 |
| Payout ratio (in %) ⁴⁾ | 39.6 | 51.2 | |
| Additional dividend per share (in CHF) | 3.20 | 3.20 | 0.0 |
| Equity per share (in CHF) | 73.62 | 72.06 | 2.2 |
| Basic earnings per share (in CHF) | 8.07 | 5.85 | 37.9 |
| Diluted earnings per share (in CHF) | 8.07 | 5.85 | 37.9 |
| | Security number | SIX Symbol | Reuters |
| Flughafen Zürich AG (registered share) | 31941693 | FHZN | FHZN.S |
| Closing price as at 31.12. (in CHF) | 188.90 | 150.70 | 25.3 |

1) Invested capital includes equity and interest-bearing debt.

2) Interest-bearing liabilities (net) include interest-bearing debt less cash and cash equivalents, interest-bearing current and non-current financial assets and fixed-term deposits.

3) A 5-for-1 share split was implemented on 6 May 2016. For the purpose of comparison, the previous year's figures have been adjusted accordingly.

4) Additional dividend from capital contribution reserves not included.

KEY DATA EXCLUDING THE INFLUENCE OF AIRCRAFT NOISE

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

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

The following adjusted key figures reflect all significant noise-related items in the income statement and balance sheet:

| (CHF 1,000) | 2016 | 2015 | Change in % |
|---|-----------|-----------|-------------|
| Total revenue | 1,001,124 | 978,200 | 2.3 |
| of which aviation revenue | 608,722 | 586,616 | 3.8 |
| of which non-aviation revenue | 392,402 | 391,584 | 0.2 |
| Operating expenses | -430,461 | -385,884 | 11.6 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 570,663 | 592,316 | -3.7 |
| EBITDA margin (in %) | 57.0 | 60.6 | |
| Earnings before interest and tax (EBIT) | 334,798 | 369,881 | -9.5 |
| EBIT margin (in %) | 33.4 | 37.8 | |
| Profit | 245,377 | 269,224 | -8.9 |
| Cash flow from operating activities | 484,259 | 472,537 | -2.6 |
| Cash flow from investing activities | -189,336 | -152,129 | 24.5 |
| Invested capital as at reporting date ¹⁾ | 3,065,907 | 3,030,840 | 1.2 |
| Average invested capital ¹⁾ | 3,048,373 | 3,002,750 | 1.5 |
| Return on average invested capital (ROIC in %) | 8.7 | 9.8 | |
| Equity as at reporting date | 2,121,478 | 2,076,406 | 2.2 |
| Return on equity (in %) | 11.7 | 13.5 | |
| Equity ratio (in %) | 61.5 | 61.3 | |
| Interest-bearing liabilities (net) ²⁾ | 566,355 | 651,169 | -13.0 |
| Interest-bearing liabilities (net) / EBITDA | 0.99x | 1.10x | |
| Key data for shareholders of Flughafen Zürich AG ³⁾ | | | |
| Payout ratio (in %) ⁴⁾ | 40.0 | 34.2 | |
| Equity per share (in CHF) | 69.10 | 67.63 | 2.2 |
| Basic earnings per share (in CHF) | 7.98 | 8.77 | -9.0 |
| Diluted earnings per share (in CHF) | 7.98 | 8.76 | -8.9 |

See previous page for an explanation of the footnotes.

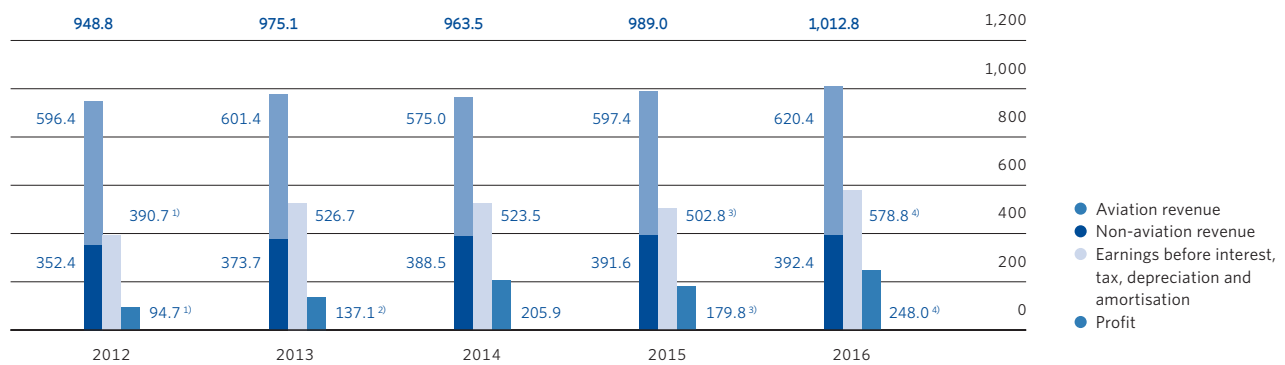
RESULTS INCLUDING AND EXCLUDING NOISE-RELATED ITEMS

The figures for the income statement and results including and excluding noise-related factors are as follows:

| (CHF 1,000) | 2016 | | | 2015 | | |
|-------------------------------|--------------------------|-------------------------------|--------------------------|--------------------------|-------------------------------|--------------------------|
| | Including aircraft noise | Elimination of aircraft noise | Excluding aircraft noise | Including aircraft noise | Elimination of aircraft noise | Excluding aircraft noise |
| Aviation revenue | 620,402 | -11,680 | 608,722 | 597,389 | -10,773 | 586,616 |
| Non-aviation revenue | 392,402 | 0 | 392,402 | 391,584 | 0 | 391,584 |
| Total revenue | 1,012,804 | -11,680 | 1,001,124 | 988,973 | -10,773 | 978,200 |
| Operating expenses | -434,000 | 3,539 | -430,461 | -486,157 | 100,273 | -385,884 |
| EBITDA | 578,804 | -8,141 | 570,663 | 502,816 | 89,500 | 592,316 |
| Depreciation and amortisation | -241,454 | 5,589 | -235,865 | -228,172 | 5,737 | -222,435 |
| EBIT | 337,350 | -2,552 | 334,798 | 274,644 | 95,237 | 369,881 |
| Profit | 248,018 | -2,641 | 245,377 | 179,807 | 89,417 | 269,224 |

FINANCIAL DEVELOPMENT

(CHF million)



- 1) After expenditure for the initial recognition of employee benefits according to IAS 19 (primarily the new affiliation contract with the BVK Employee Pension Fund of the Canton of Zurich).
- 2) After expenditure for the restructuring of non-current financial liabilities.
- 3) After expenditure for increased provisions for sound insulation and resident protection, revenue from adjustments to the net defined benefit obligations as a result of the announced change to the BVK scheme, and profit from the sale of a portion of land for "The Circle" and transfer of the associated project costs.
- 4) After income from an additional purchase price payment for the land for "The Circle" (2nd phase) and from an advance payment from the bankruptcy assets of the former Swissair.

RESULTS TREND

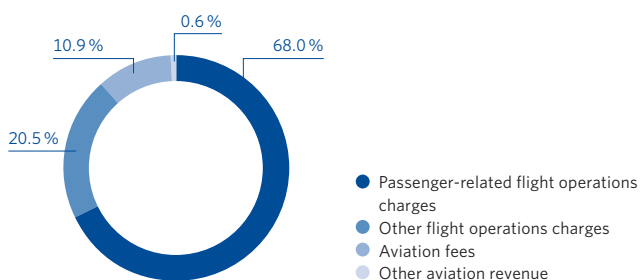
→ Table page 59

Revenue rose year on year from CHF 989.0 million to CHF 1,012.8 million (+2.4%), hitting the billion mark for the first time in the history of Flughafen Zürich AG, with both aviation and non-aviation streams performing well.

Aviation revenue

Of the total revenue, approximately 61% was attributable to aviation revenue, amounting to CHF 620.4 million (+3.9%) in the reporting period.

BREAKDOWN OF AVIATION REVENUE



(CHF million)

| Aviation revenue | 2016 | in % |
|---|----------------|--------------|
| Passenger-related flight operations charges | 421,855 | 68.0 |
| Other flight operations charges | 127,257 | 20.5 |
| Aviation fees | 67,816 | 10.9 |
| Other aviation revenue | 3,474 | 0.6 |
| Total | 620,402 | 100.0 |

Passenger volumes again developed positively in the past year. A new all-time record of 27.7 million passengers (+5.3%) was set at Zurich Airport. Despite the lower charges from 1 September 2016, revenue from passenger-related flight operations charges

was lifted from CHF 411.4 million to CHF 421.9 million (+2.6%), with a rise in the number of local passengers (+6.5%) especially having a positive impact.

The new charging model introduced on 1 September 2016 saw an increase in parking charges balanced out by lower landing charges. However, the rise in the number of flight movements (+1.5%) coupled with the trend towards larger aircraft offset the reduction in landing charges, resulting in higher revenue (+1.7%). At the same time, the adjustment to parking charges has resulted in a noticeable jump in revenue of CHF 6.6 million. Overall, revenue from other flight operations charges rose by CHF 9.7 million to CHF 127.3 million (+8.2%).

The positive trend in aviation fees, which increased by CHF 2.9 million to CHF 67.8 million (+4.5%) is attributable to volume effects. Movement between charge items is due to user fees being formally introduced together with the flight operations charges.

Non-aviation revenue

Revenue from non-aviation operations saw a disproportionately low rise of CHF 0.8 million to CHF 392.4 million (+0.2%).

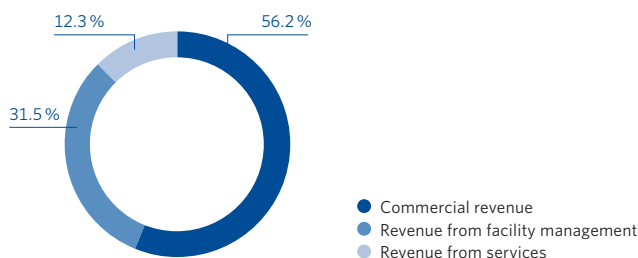
In the reporting period, total commercial revenue increased from CHF 216.8 million to CHF 220.7 million (+1.8%). Here, revenue from retail, tax & duty-free and food & beverage operations saw a year-on-year gain of 1.5% to CHF 113.1 million. In the reporting period, sales for retail outlets and restaurant operators at Zurich Airport, from which this revenue stems, amounted to CHF 544.6 million (+1.9%). This corresponds to an average spend per passenger of CHF 39.40 (2015: CHF 40.70). Revenue from car parking grew by 1.4% to CHF 75.4 million.

Revenue from facility management totalled CHF 123.4 million (+0.9%). Revenue from rental and leasing agreements was up year on year by CHF 1.3 million (+1.5%). Compared with the previous year, revenue from the cross-charging of energy and utility costs fell by CHF 2.5 million to CHF 22.0 million (-10.1%) as a result of various rate adjustments. Thanks to being chosen as client representative and lead managers for "The Circle" joint

ownership company, Flughafen Zürich AG achieved an increase in services revenue of around CHF 2.0 million.

Owing to the expiry of the management agreement with Bangalore International Airport Ltd. in May 2015 and lower revenue from the consultancy agreement with the airport in Belo Horizonte, revenue from consulting activities for international clients fell by CHF 6.5 million compared with the previous year.

BREAKDOWN OF NON-AVIATION REVENUE



(CHF million)

| Non-aviation revenue | 2016 | in % |
|----------------------------------|----------------|--------------|
| Commercial revenue | 220,681 | 56.2 |
| Revenue from facility management | 123,434 | 31.5 |
| Revenue from services | 48,287 | 12.3 |
| Total | 392,402 | 100.0 |

Operating expenses

Operating expenses in the reporting period shrank by CHF 52.2 million to CHF 434.0 million (–10.7%). However, this was due in part to one-off effects in the previous year (increase in provisions for sound insulation and resident protection measures due to the expansion of the sound insulation programme, reduction of net defined benefit obligations as a result of the announced changes to the BVK pension scheme, and profit from the sale of a portion of land and transfer of project costs in connection with “The Circle” project). In the reporting period, extraordinary income consists mainly of a payment of CHF 3.5 million in connection with the liquidation of Swissair in debt restructuring proceedings and an additional purchase price payment of CHF 7.3 million for the land for “The Circle”, which fell due upon the initiation of the second phase of the project. After adjusting for the one-off effects in the reporting period and the prior year, operating expenses remain on a par with 2015 (+0.7%) despite the growth in traffic.

Personnel expenses for the reporting period amounted to CHF 196.6 million (+17.1%). Factoring out the one-off effect in the previous year, this represents an increase of 5.9%. In addition to the higher average headcount in Zurich (especially following the insourcing of the operation and maintenance of Skymetro), other expenses relating to employee benefit provisions pursuant to IAS 19 contributed to this trend. As at 31 December 2016, Flughafen Zürich AG employed 1,693 staff in Switzerland (31.12.2015: 1,645), corresponding to 1,443 full-time equivalent positions (31.12.2015: 1,398). As at the reporting date a further 80 employees worked for consolidated company A-port Operaciones S.A. and its subsidiaries.

Despite strong growth in the number of local passengers, expenses for police and security contracted slightly to CHF 118.3 million (–0.3%) in the reporting period.

Thanks to more favourable purchasing terms, costs for energy and waste fell to CHF 18.5 million (–15.6%). Costs for maintenance and material decreased by 13.8%, totalling CHF 35.2 million in the reporting period. This is attributable firstly to less expenditure on building maintenance in connection with large-scale upgrading and renovation projects, and secondly to lower external costs following the insourcing of the operation and maintenance of Skymetro.

As with costs for sales, marketing and administration, there was a slight reduction in other operating expenses (–0.5%).

After adjustment for the aforementioned one-off effects, capitalised expenditure and other income/expenses came to CHF 9.6 million (prior-year adjusted: CHF 11.7 million).

Operating result

Earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to CHF 578.8 million (+15.1%). The EBITDA margin rose from 50.8% to 57.1%. After adjusting for the aforementioned one-off effects, EBITDA was CHF 568.1 million (+3.8%) and the EBITDA margin climbed from 55.4% to 56.1%.

At CHF 241.5 million, depreciation and amortisation remained on a par with the prior-year level of CHF 228.2 million (+5.8%). This is due to the adjustment of depreciation periods in connection with upcoming projects (Zone A) and as a result of a general review of the useful life of property, plant and equipment, together with the recognition of various major projects during the reporting period (in particular the upgrading of Terminal 2 and the remodelling of the curbside lanes). Earnings before interest and tax (EBIT) rose from CHF 274.6 million to CHF 337.4 million (+22.8%). After taking one-off factors into account, EBIT amounted to CHF 326.6 million, which represents an increase of 2.3%.

The finance result of Flughafen Zürich AG amounted to CHF –17.4 million in the reporting period, significantly higher than the prior-year period (CHF –37.4 million). The main reasons for the positive change are the interest effect from the unwinding of discount on the provisions for formal expropriations plus sound insulation and resident protection measures. Whereas an expense of CHF 17.0 million was incurred in the previous year due to the change to the discount rate as a result of the lower level of interest rates, income of CHF 1.1 million was generated in the reporting period, due in particular to the extended average term of future compensation payments for formal expropriations.

The share in the result of associates in the amount of CHF –5.3 million (2015: CHF –3.9 million) is based primarily on the company's share in the profit/loss of the operators of airports in Bengaluru in India (until April 2016) and Belo Horizonte in Brazil, as well as the rest of the company's investment portfolio in Latin America.

Profit

Profit amounted to CHF 248.0 million, up CHF 68.2 million on the previous year. When adjusted to take account of one-off effects, profit totalled CHF 239.5 million, CHF 24.2 million higher (+11.2%) than the adjusted profit for the previous year.

The Board of Directors is proposing to the General Meeting of Shareholders the payment of an ordinary dividend of CHF 3.20 per share (2015: CHF 3.00; adjusted) and payment of an additional dividend out of the capital contribution reserves of CHF 3.20 per share (2015: CHF 3.20; adjusted).

CONSOLIDATED CASH FLOW STATEMENT Table page 62

Compared with the prior year (CHF 456.2 million), cash flow from operating activities increased by CHF 15.7 million and amounted to CHF 471.9 million for the reporting period. Activities relating to aircraft noise resulted in a cash outflow of CHF –12.4 million (2015: CHF –16.4 million).

Cash flow from investing activities amounts to CHF –167.5 million (2015: CHF –119.5 million). Despite the year-on-year decrease in investments in property, plant and equipment, cash outflow was higher as the total for the previous year included CHF 67.9 million from the sale of property, plant and equipment (share of land and project costs for “The Circle”) (2016: proceeds of CHF 7.3 million in connection with the commencement of the second expansion phase of “The Circle”).

The result for the reporting period was a cash outflow from financing activities of CHF –228.8 million (2015: CHF –190.3 million). The increase in comparison with the prior year is primarily attributable to the much higher dividend payment in the 2016 financial year. The final tranche of the US private placement was repaid in the prior year.

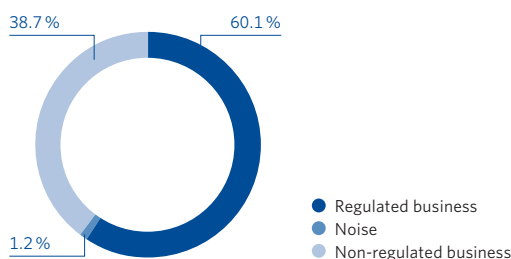
At the end of 2016, the company held cash and cash equivalents of CHF 447.8 million (2015: CHF 372.0 million), of which CHF 58.6 million is held by the Airport of Zurich Noise Fund.

SEGMENT REPORTING

 Table page 75

Reporting of operating segments is carried out in accordance with the Ordinance on Airport Charges (FGV), more specifically with regard to the regulated charges and fees affected by the Ordinance.

BREAKDOWN OF SEGMENT REVENUE WITH THIRD PARTIES



(CHF million)

| Segment revenue with third parties | 2016 | in % |
|------------------------------------|----------------|--------------|
| Regulated business | 608.7 | 60.1 |
| Noise | 11.7 | 1.2 |
| Non-regulated business | 392.4 | 38.7 |
| Total | 1,012.8 | 100.0 |

Regulated business

During the reporting period, revenue from third parties for the regulated business segment rose from CHF 586.6 million to CHF 608.7 million. In the same period, earnings before interest and tax (EBIT) for regulated business, which comprises the “Aviation”, “PRM”, “User Fees”, “Air security” and “Access fees” segments, declined by CHF 8.4 million to CHF 135.1 million.

The lower result is due primarily to higher depreciation expense, a portion of which was incurred by the regulated business as a result of an adjustment to depreciation periods in connection with upcoming projects and a general review of the useful lives of property, plant and equipment, as well as the recognition in full of various major projects during the reporting period (in particular the upgrading of Terminal 2 and the refurbishment of the curbside lanes).

Compared with the previous year, capital invested for regulated business remained virtually unchanged at CHF 1.9 billion, of which CHF 1.4 billion is associated with the “Aviation” segment. In addition to the purely aviation-related infrastructure, invested capital also includes a proportion of the costs from mixed-use buildings, in particular the terminals. ROIC for regulated business is 5.7 % (2015: 6.1 %).

Noise

Revenue in the “Noise” segment was up by CHF 0.9 million on the previous year to CHF 11.7 million for the reporting period.

The clear improvement in EBIT is due entirely to the recognition in the previous year of the additional provision for the expanded sound insulation programme.

The capital invested in the “Noise” segment amounted to CHF 149.8 million on the reporting date, and current ROIC is 1.3 %.

Non-regulated business

During the reporting period, revenue from third parties for the non-regulated business segment went up slightly from CHF 391.6 million to CHF 392.4 million. In the same period, earnings before interest and tax (EBIT) for non-regulated business declined by CHF 26.7 million to CHF 199.7 million.

The decrease is due entirely to the one-off effect of the sale of a portion of building land in the previous year and the transfer of the project to “The Circle” co-ownership structure, which in 2015 impacted positively on the segment result to the tune of CHF 34.6 million.

As in the previous year, invested capital amounts to around CHF 1.2 billion, and ROIC for the non-regulated business is 13.6 % (2015: 16.1 %).

INVESTMENTS

 Table page 84

Investments in property, plant and equipment in the 2016 financial year amounted to CHF 174.1 million (2015: CHF 160.2 million). The largest investments comprised the upgrading of Terminal 2 (CHF 36.7 million), the expansion of car parks (CHF 33.5 million) and the remodelling of the curbside lanes (CHF 15.2 million).

Moreover, a proportional share of investment in “The Circle” amounting to CHF 46.6 million (2015: CHF 39.5 million) was posted.

India

On 15 April 2016, Flughafen Zürich AG signed an agreement to sell its 5 % stake in Bangalore International Airport Ltd. (BIAL), the owner and operator of the international airport in the Indian city of Bengaluru. The agreed purchase price before tax is USD 48.9 million. Subject to the customary terms and conditions, the sale is expected to be completed in the first quarter of 2017.

Brazil

Along with the Brazilian company CCR, Flughafen Zürich AG holds a 25 % interest in a private consortium which in turn holds a 51 % controlling stake in the local airport operator Concessionária do Aeroporto Internacional de Confins S.A. – the remaining 49 % of the shares are held by the state-owned Infraero.

As a consequence, since 2014 Flughafen Zürich AG and CCR have been responsible for the operation and expansion of the international airport in Belo Horizonte in the Brazilian state of Minas Gerais. The concession agreement is for 30 years and prescribes certain infrastructure expansion during the first few years. After only 14 months' construction time, a new terminal commenced operation at the end of 2016. As a result of negative growth, coupled with the politically and economically challenging situation in Brazil, passenger volumes of 9.6 million in 2016 were 14.7 % down on the previous year.

Flughafen Zürich AG has an Operations, Management & Service Agreement (OMSA) with the licence holder. Flughafen Zürich AG appoints both the retail and flight operations managers.

Latin America

Flughafen Zürich AG has a 62 % majority stake in A-port Operaciones S.A. This company based in the Chilean capital Santiago de Chile manages and operates airports in Latin America and the Caribbean. This commitment includes airports in Chile, Curaçao and Colombia.

In addition to the operation of airports, Flughafen Zürich AG holds indirect interests in the licence holders for the Chilean airports in Antofagasta and Iquique due to its 49 % stake in A-port Chile S.A. plus an interest in Hato International Airport in Curaçao through Companhia de Participações Aeroportuárias, based in São Paulo (Brazil).

Kazakhstan

Through its subsidiary Zurich Airport International AG, Flughafen Zürich AG was involved in the operation of a portfolio of eleven airports in Kazakhstan under an Operations, Management & Service Agreement (OMSA). This contract expired in April 2016.

At CHF 4,065.4 million on the balance sheet date, there was little significant change in the consolidated balance sheet total of Flughafen Zürich AG for the 2016 financial year.

Thanks in particular to the higher level of cash and cash equivalents, current assets increased by CHF 71.5 million to CHF 716.2 million. Non-current assets decreased by CHF 48.7 million compared with the previous year, totalling CHF 3,349.1 million at the balance sheet date. Along with net changes in property, plant and equipment as well as investment property, this was also due to the reduction in intangible assets from the right of formal expropriation.

Liabilities declined year on year by CHF 24.9 million to CHF 1,805.2 million. As at the reporting date, the increase in provisions for employee benefit obligations and current accruals and deferrals was offset by lower provisions for formal expropriations (adjustments following rulings by the Swiss Federal Supreme Court) as well as for sound insulation and resident protection. In addition, the reclassification of the debenture for CHF 250.0 million due in May 2017 changed the ratio between current and non-current liabilities.

Equity increased in the reporting period by CHF 47.7 million and amounted to CHF 2,260.1 million at the end of 2016, which corresponds to a ratio of 55.6 % (2015: 54.7 %). For the 2016 financial year, the return on invested capital (ROIC) was 8.4 % (2015: 6.8 %). Adjusted for noise-related factors, ROIC declined from 9.8 % to 8.7 %.

OUTLOOK

Traffic and revenue trend

Flughafen Zürich AG expects passenger growth of around 4% in 2017, with slightly more flight movements than in 2016. Despite the reduction in passenger-related charges which took effect at the start of September 2016, aviation revenue will be marginally higher in the 2017 financial year, due mainly to the expected growth in passenger numbers. Revenue from non-aviation business is also expected to rise slightly.

Operating expenses

Excluding one-off factors, a marginal year-on-year rise in operating expenses too is expected in 2017.

Investments

The company has earmarked around CHF 300 million for investments in property, plant and equipment in 2017. As well as various works to maintain the value of the airport's infrastructure, the biggest investment volume of around CHF 130 million is for the major project "The Circle". Costs for the "Zone A" project, which includes replacement of the baggage sorting system, and the "Delta South stands" project are also included in the investment budget.

Result

Excluding the one-off effects in the 2016 and 2017 financial years, the figure for earnings before interest, tax, depreciation and amortisation (EBITDA) is expected to be in line with the previous year, and profit (including noise-related items) is expected to be slightly higher than in 2016.

AIRPORT OF ZÜRICH NOISE FUND

Flughafen Zürich AG refinances all costs relating to aircraft noise through special noise charges based on the "costs-by-cause" principle. In the interest of transparency, costs and income relating to aircraft noise are recognised in a special statement for the Airport of Zurich Noise Fund, which is a liquidity-based fund. The fund statement presents the accumulated surplus or shortfall arising from noise charges as at the balance sheet date, less expenses for formal expropriations, sound insulation and resident protection measures, and noise-related operating costs.

In the event that the fund statement should show an accumulated income surplus, this surplus will be moved to a special investment account and invested by professional financial institutions using a conservative, money-market-oriented investment strategy. The income from these investments is credited to the fund statement.

The detailed fund statement is disclosed to a committee comprising representatives of Zurich Airport's customers, of the relevant authorities and of Flughafen Zürich AG. Regulations and other information about the Airport of Zurich Noise Fund (including an overview of its financial development) can be found at www.zurich-airport.com/aznf.

The position of the Airport of Zurich Noise Fund as at the reporting date is as follows:

AIRPORT OF ZÜRICH NOISE FUND

| (CHF 1,000) | 2016 | 2015 |
|---|----------------|----------------|
| Airport of Zurich Noise Fund as at 1 January | 471,744 | 491,396 |
| Revenue from noise charges | 11,601 | 10,865 |
| Costs for sound insulation and resident protection | -12,585 | -17,779 |
| Costs for formal expropriations ¹⁾ | -11,406 | -12,954 |
| Balance before operating costs and finance result | 459,354 | 471,528 |
| Operating costs | -3,277 | -3,137 |
| Interest income from financial assets of Airport of Zurich Noise Fund | 2,639 | 3,897 |
| Adjustments to fair value and realised gains/losses on financial assets (available-for-sale securities) | -792 | -544 |
| Airport of Zurich Noise Fund as at 31 Dec. | 457,924 | 471,744 |

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

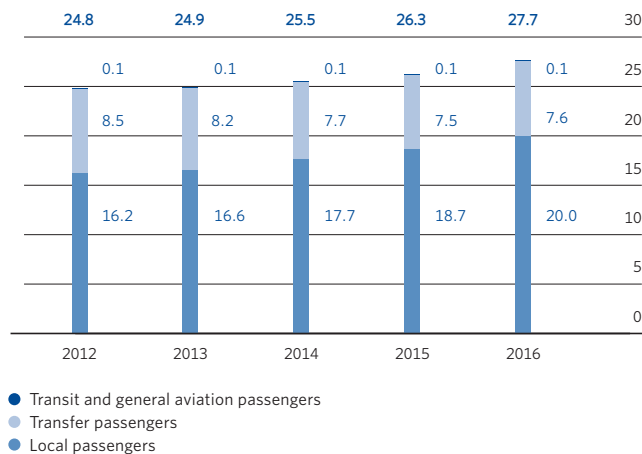
TREND IN TRAFFIC VOLUME

Record-breaking 27 million passengers at Zurich Airport

In the past year, Zurich Airport handled 27,666,428 passengers, setting a new record and exceeding the previous record set in 2015 by 5.3%. In comparison with major European airports, Zurich's growth of 5.6% is slightly lower than average ¹⁾.

TREND IN PASSENGER VOLUMES

(in millions)



In 2016, the Zurich Airport catchment area again proved to be a stable and reliable market. Increasing competition coupled with rising local demand for air travel were the main drivers of growth at Zurich Airport over the past year. Growth was further boosted by an upswing in the transfer segment. The number of local passengers rose by 6.5% to 20.0 million, and the number of transfer passengers increased 2.3% to 7.6 million. Despite the above-mentioned upswing, the share of transfer passengers again declined, from 28.5% in 2015 to 27.6% in the reporting period. The scheduled and charter segment grew by 5.3% in 2016, while general aviation was on a par with the previous year.

Europe, Zurich Airport's most important market, showed a slightly below average increase of 4.9%. Intercontinental traffic, on the other hand, experienced above-average growth of 6.5%. The biggest increase in demand was seen for flights to Latin America (+22.4%), followed by the Middle East (+9.9%), North America (+7.2%) and the Far East (+6.2%). The African region experienced a further contraction of 10.4%.

Over the past year, the share of passengers at hub carrier SWISS amounted to 53.1%, followed by Air Berlin (7.1%), Edelweiss Air (5.2%), Eurowings (2.5%) and British Airways (2.1%).

Strong network

In 2016, scheduled airlines operated flights from Zurich Airport to 125 European and 53 intercontinental destinations. A total of 68 scheduled airlines and charter carriers offered services on the route network.

Flight movements up slightly but lower capacity utilisation

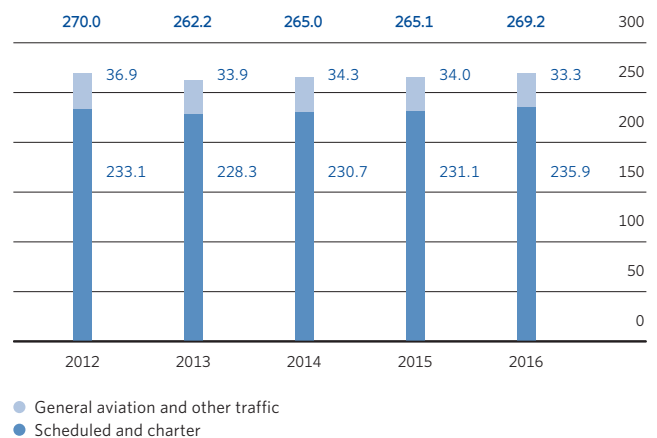
Flight movements totalled 269,160 in 2016, which represents growth of 1.5% compared with the previous year. During the same period, the seat capacity increased by a remarkable 6.6%, in particular due to the new aircraft in the SWISS fleet (Bombardier C Series and Boeing 777-300ER).

As expected, the big increase in the number of seats led to the seat load factor dropping by one percentage point to 75.8%. The number of passengers per flight movement rose from 114 to 117.

In the scheduled and charter flight segment, the number of flight movements increased by 2.1% while general aviation contracted by 2.3%.

FLIGHT MOVEMENTS

(in 1,000)

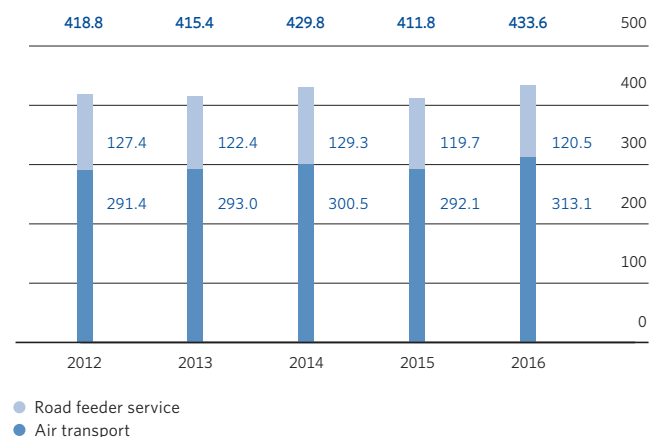


Recovery in freight traffic

In 2016, freight volumes at Zurich Airport increased by 5.3% over their 2015 levels. A total of 433,577 tonnes of freight were transported during the reporting period. While the volume of freight shipped by air was 7.2% higher, substitute air freight transported by road increased by only 0.7%.

FREIGHT

(in 1,000 tonnes)



¹⁾ Source: ACI Airports Council International

TREND IN TRAFFIC VOLUME

AIR TRAFFIC MOVEMENTS IN EUROPE

(Take-offs and landings per year to / from the respective countries)

- Under 1,000
- 1,000 – 5,000
- 5,000 – 10,000
- 10,000 – 15,000
- 15,000 – 25,000
- Over 40,000

NUMBER OF AIRLINES

68

Scheduled and charter flights

SCHEDULED FLIGHT DESTINATIONS

EUROPE

38

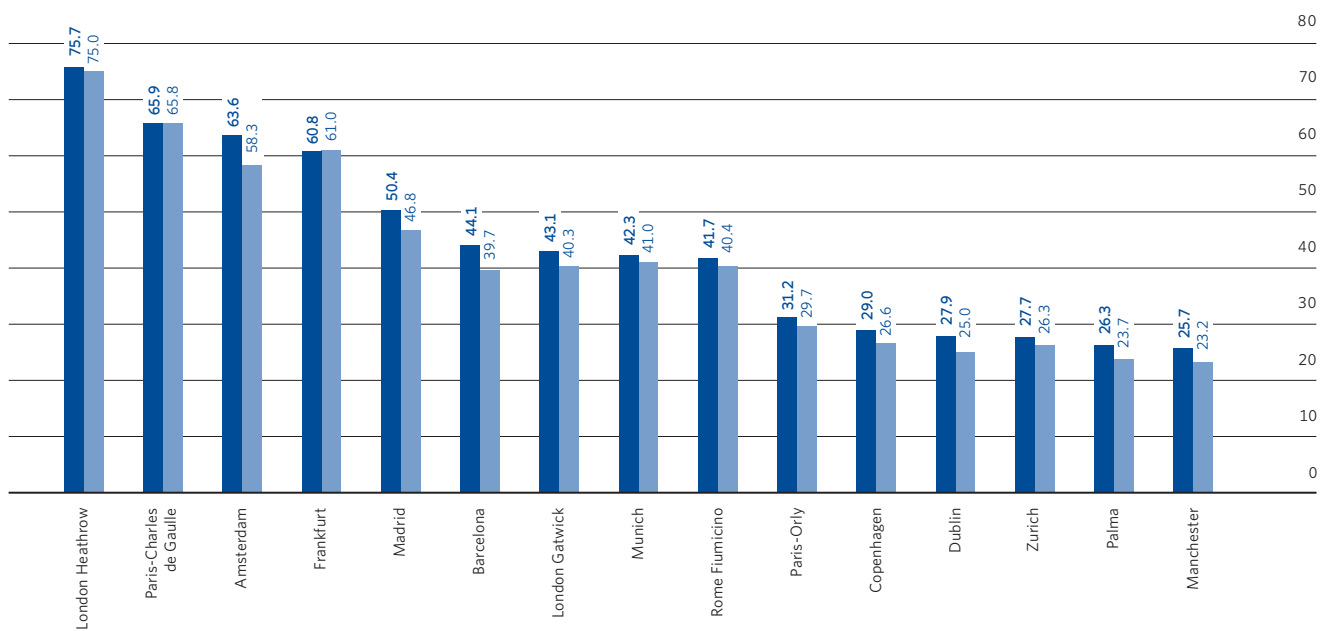
Countries

125

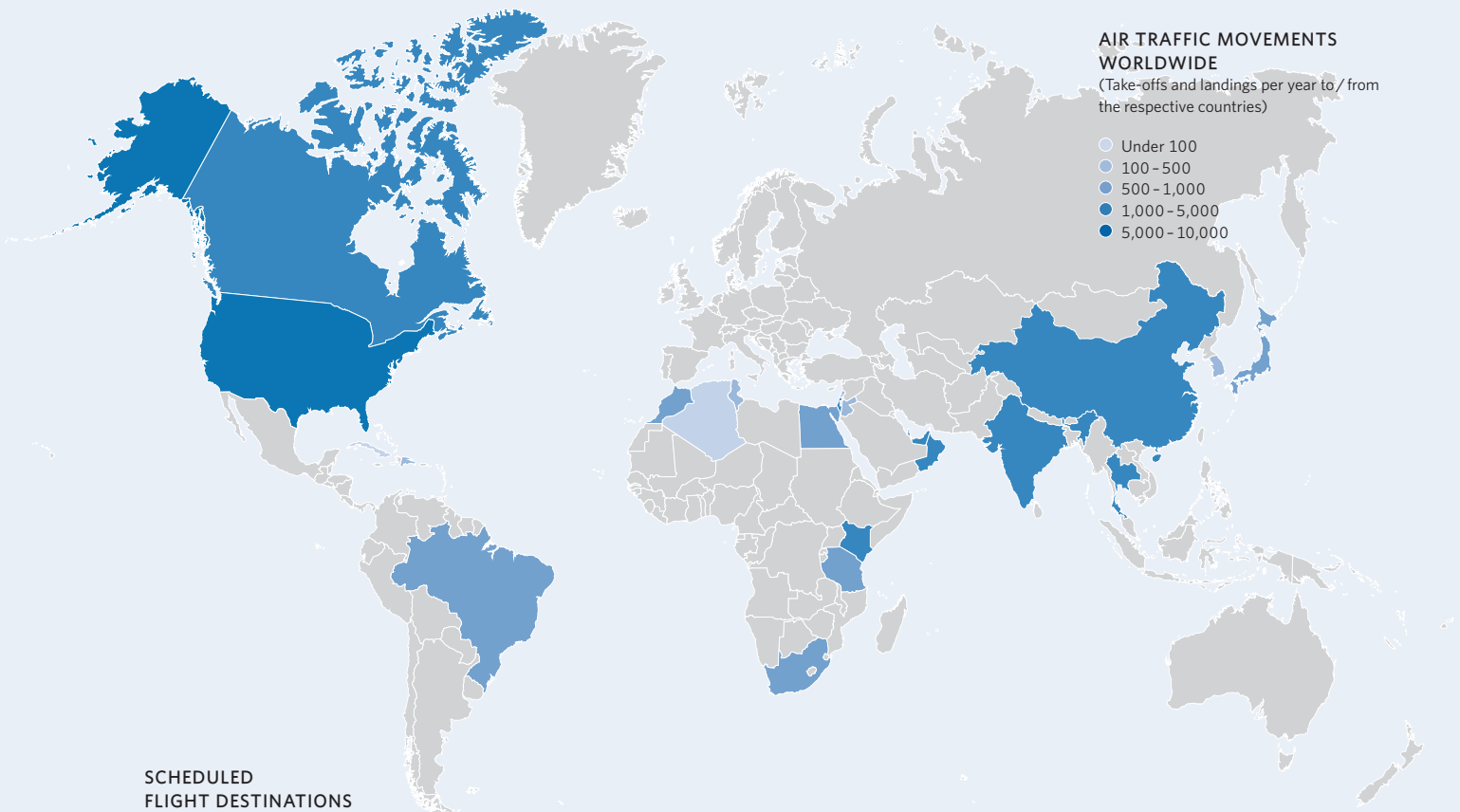
Cities

PASSENGERS AT EUROPEAN AIRPORTS (IN MILLIONS)

2016 2015



Source: ACI Airports Council International



SCHEDULED FLIGHT DESTINATIONS

NORTH AMERICA

2

Countries

16

Cities

SOUTH / CENTRAL AMERICA

3

Countries

4

Cities

AFRICA

8

Countries

15

Cities

ASIA

14

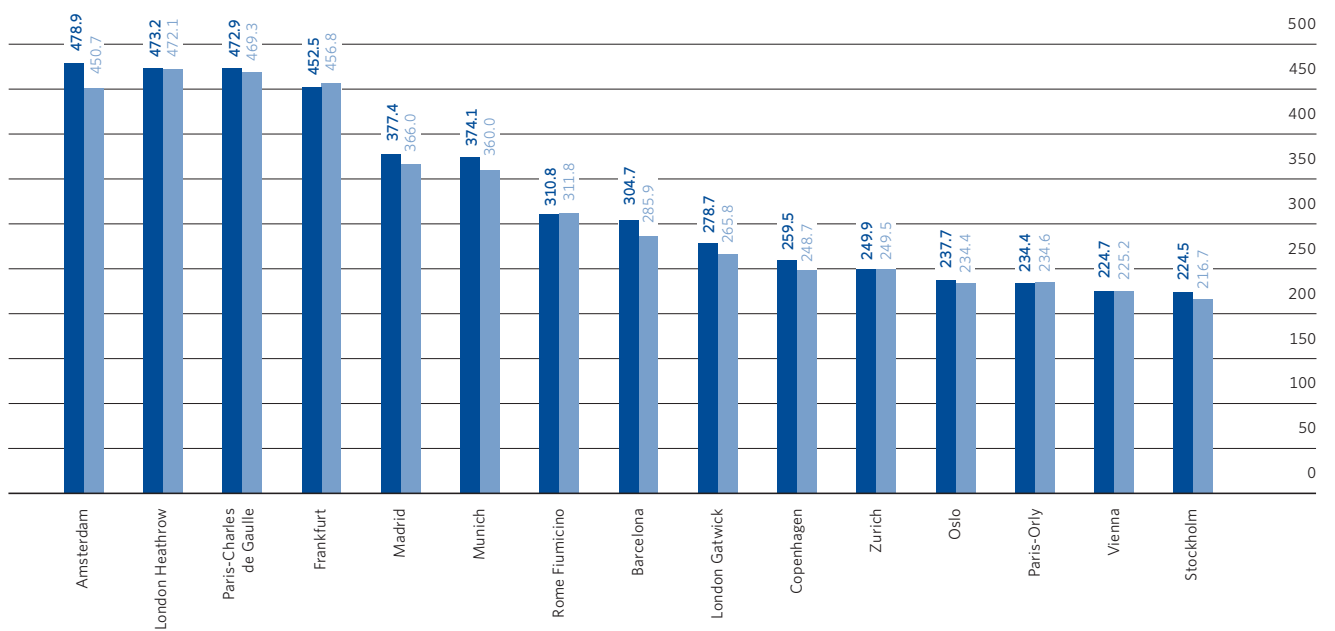
Countries

18

Cities

COMMERCIAL MOVEMENTS AT EUROPEAN AIRPORTS (IN 1,000)

● 2016 ● 2015



Source: ACI Airports Council International

AVIATION

Swiss aviation policy report

In the Swiss aviation policy report (LUPO), the Federal Council analyses the current situation of the civil aviation sector in Switzerland and sets out how it intends to strengthen aviation for the benefit of the public and the economy as a key pillar of its transport policy, taking economic, environmental and social factors into consideration. The Federal Council has accurately analysed and clearly stated the challenges facing Swiss aviation in the report. It recognised the fact that Switzerland's national airports, and specifically Zurich as an intercontinental hub, constitute fundamental elements of the country's core infrastructure and form an important part of its overall transport system.

Sectoral Aviation Infrastructure Plan

On 27 September 2016, the Federal Office of Civil Aviation (FOCA) published a revised version of the SAIP detailed plan for Zurich Airport (SAIP2). This is intended to enable the airport to improve the safety margin of its operations and increase the number of flight movements it can handle to 70 per hour. At the same time, it should facilitate the extension of runways 28 and 32 as well as a taxiway around the end of runway 28, which are necessary for robust implementation of the "East Concept" for flight operations. Flughafen Zürich AG welcomes the proposed changes as they will enable some important current problems to be resolved. However, the proposed SAIP2 plan does not make any allowance for current or future demand for slots during peak times. As a consequence, capacity constraints are set to continue.

"SAIP2 resolves some current problems, but does not address the long-term issues."

Rulings on test cases for eastern and southern approaches

In the spring of 2016, the Swiss Federal Supreme Court handed down two rulings in test cases concerning compensation claims relating to the eastern and southern approach routes. Various points regarding the amount of compensation payable for low-level direct overflying of properties were clarified. The court ruled that flying over a property at an altitude of 350 metres did not constitute a direct overflight. In order to qualify for noise compensation in the case of approaches from the south irrespective of direct overflights, the further condition that a property must have been acquired already prior to 1 January 1961 also applies. To receive compensation for excessive air traffic noise, therefore, claimants in all airport regions must show that their family already owned the property before 1961. These rulings in the final instance clarified important questions for the ongoing processing of pending claims for compensation and significantly bolstered legal and cost certainty. Following these rulings, everyone with outstanding claims was informed of the judgments and asked to withdraw their compensation claim if they clearly did not meet the specified conditions. As a result, over 3,700 cases had been withdrawn by the end of 2016.

New airport charges in force

A further key decision was taken at the beginning of May 2016. The Federal Office of Civil Aviation (FOCA) decided on the charges proposed by Flughafen Zürich AG in September of the previous year. This primarily concerns passenger-related airport charges which are being reduced from CHF 36.40 to CHF 35.00 for local passengers, and from CHF 18.90 to CHF 16.00 for transfer passengers. At the same time, landing and aircraft parking charges were also included in the revised charge regulations. The new charges and user fees came into effect on 1 September 2016 and are valid for four years. Despite the lower charges, the capital costs in the regulated business segment will still be covered, on the one hand thanks to strict cost management and investment discipline, and on the other hand to the welcome growth in passenger volumes, especially local passengers.

Fleet changes at home carrier SWISS

SWISS is investing in larger aircraft on its routes and is intending to increase seat capacity by around 20% by 2018. SWISS added two new aircraft types to its fleet during 2016. Since the beginning of the year it has also been operating Boeing 777-300ER aircraft on its long-haul routes. These offer significantly more seats than the Airbus A340s they replaced. With the addition of the innovative Bombardier C Series to its fleet to serve short-haul destinations from July, Swiss International Air Lines has reached another milestone in the modernisation of its fleet. Fuel consumption can be cut by up to a quarter, while CO₂ emissions are reduced by around 90,000 tonnes a year.

Arrestor system for runway 28

Following a safety review, FOCA instructed the airport operator to build an arrestor system at the end of runway 28. The paved surface at the end of runway 28 already meets the standards required by the International Civil Aviation Organization (ICAO) and the European Aviation Safety Agency (EASA). However, to improve the safety margin even further, Flughafen Zürich AG installed an engineered materials arresting system (EMAS) over three months in the summer of the reporting period. The costs of the arrestor system amounted to around CHF 11 million, part of which was financed by the Confederation from the proceeds of aviation fuel tax. Since the construction site was located within the safety strip for runway 28, the building work was carried out at night after flight operations had ceased for the day. Various noise control measures were implemented in order to minimise the impact on local residents.

Zone West with "plane spotters' hill"

To meet the growing demand for aircraft stands, planning consent was sought for an initial phase of around 20 new stands in Zone West. This was approved in December 2013. In August 2016, work commenced on the first phase which encompasses two stands for category E aircraft (Boeing 777 or Airbus A340) and a taxiway extension. The realisation costs are approximately CHF 25 million. The new infrastructure covers around five hectares and will necessitate the enlargement of the airport site. It will also require the airport fence to be moved. The observation area near the Heliport which is popular with plane spotters is being moved westwards. In order to continue to provide airport fans with a

good view of flight operations in future, a new elevated viewing platform, dubbed “plane spotters’ hill”, is envisaged.

RETAIL

Retail development

The opening of two new Hour Passion boutiques and a Fabric Frontline shop in the Airside Center in December 2016 has enriched the airside offering. The expansion and optimisation of the retail offering at Zurich Airport in recent years is likewise contributing positively to revenue.

“Contrary to the negative trend in the bricks-and-mortar sector, retail business at Zurich Airport is growing.”

The Swiss retail industry remains under pressure. In response to changes in shopping behaviour, it is essential to develop and implement appropriate strategies to boost sales. Close cooperation with partners is therefore all the more important. The early extension of the duty-free agreement with Dufry AG marks an important first step in this regard. Dufry AG will redesign all large duty-free shops in the arrival and departure areas in 2017 and launch an innovative, high quality store concept.

The airport’s digital competence and presence are being continually expanded. One example is the further development of the Zurich Airport app which was launched in the spring of 2016. As well as enhancing existing functions, users can now also book a parking space or create a travel itinerary all the way from their home to the gate. In addition, free use of Wi-Fi at Zurich Airport has been extended to two hours.

Customer experience and awards

The customer’s experience at Zurich Airport is extremely important so various aspects of service quality are regularly assessed. A wide-ranging study of the check-in process and security procedures was carried out in 2016. The findings show that passengers continue to be very satisfied with these two aspects of their airport experience. Various measures to further improve passenger throughput and the quality of service were elaborated on the basis of these findings.

Zurich Airport took second place in the Europe category of this year’s Airport Service Quality (ASQ) Award. This prestigious award presented by Airports Council International (ACI) is regarded as the benchmark for airport excellence.

As in previous years, Zurich Airport once again won the World Travel Award as “Europe’s Leading Airport” – one of the most coveted accolades in the travel industry.

Parking and curbside lanes

Following a construction period lasting some three years, the renovated and upgraded curbside lanes were re-opened phase by phase in mid-2016. The new curbside lanes have greatly improved passenger convenience and significantly enhanced their experience throughout the curbside area. In addition, the expanded car

park P6 was opened at the end of 2016. Over a three-year construction period involving investment of some CHF 80 million, around 3,500 parking spaces were added on its eastern side. Car park P6 now has approximately 7,500 spaces.

A new online booking system for parking spaces simplifies parking and is being utilised more frequently. Thanks to various launch offers, the airport succeeded in attracting additional leisure travellers with longer parking times. At the same time, travellers are also making more use of alternative options such as public transport, taxis or off-airport services.

PROJECTS

Zone A

One of the key infrastructure elements at Zurich Airport, the baggage sorting system, is scheduled for a major overhaul. Given the forecast growth in traffic, the baggage sorting system will reach the limits of its capacity within the next four to six years. At the same time, to meet EU rules, new security screening equipment needs to be installed, and key parts of the system across the whole airport require replacement. Moreover, many parts of the system have reached the end of their service life.

The expansion and upgrading work for the baggage sorting system will mainly take place in and around the heart of the current system in Zone A next to Terminal 1. This will also necessitate the demolition of existing buildings. Tenants in these buildings will be moved either to new premises in existing buildings or to temporary accommodation. During the reporting period, these tenant relocation activities were planned, and the preliminary project stage for the erection of the building and the baggage sorting system was completed. Preparatory steps for the civil engineering works required were also taken. A further important milestone was the invitation to tender for the baggage sorting system, which will move into its second phase at the beginning of 2017. The overall construction project in Zone A is scheduled to run until 2023. Based on a rough cost estimate, the investment required amounts to approximately CHF 400 million.

“The Circle”

Work on “The Circle” is proceeding apace. The landside view of the airport is currently dominated by the construction site. The majority of the excavation work has now been completed, and most of the approximately 500 energy piles, which form the foundations of the building and also guarantee a high level of energy efficiency, have been bored.

“Work on ‘The Circle’, one of the largest construction projects in Switzerland, is proceeding apace.”

News on the marketing front is likewise encouraging. For the brand houses module, both Dufry AG and Jelmoli – the House of Brands were secured as additional major tenants. Promising talks are under way for the art and training modules. The office space sector still presents a great challenge in the current environment.

However, discussions with prospective tenants are showing that the excellent location coupled with modern office concepts makes for a highly attractive product.

Flughafen Zürich AG and co-owner Swiss Life AG have furthermore decided to launch the second phase of the construction work now already, so that both phases can be implemented simultaneously. Completion of "The Circle" is scheduled for the end of 2019.

INTERNATIONAL

Belo Horizonte, Brazil

Despite the currently difficult political and economic climate, great progress has been made at the Belo Horizonte airport in Brazil. The new Terminal 2 came on stream in December. The existing Terminal 1 is being continually renovated and – thanks to new retail concepts and more efficient handling processes – travellers now perceive it as an extremely attractive transport infrastructure, not least as a result of the know-how contributed by numerous experts from Flughafen Zürich AG.

Owing to the great potential for growth in the aviation sector, as a long-term investor Flughafen Zürich AG plans to expand its presence in Brazil despite the current recession, and to participate in the third privatisation round for four further airports scheduled to take place in 2017.

Bengaluru, India

In April 2016, Flughafen Zürich AG signed an agreement to sell its 5% stake in Bangalore International Airport Ltd. (BIAL), the company that operates Kempegowda International Airport in the Indian city of Bengaluru. The agreed purchase price is USD 48.9 million before tax. Subject to the customary contract conclusion conditions, the transaction is expected to be completed in the first quarter of 2017. The sale of this shareholding completes an operationally highly successful project for Flughafen Zürich AG with a substantial one-off gain.

CORPORATE

Management Board

The former Non-Aviation division was divided into two separate Commercial and Real Estate divisions at the beginning of the year. Stefan Gross has been responsible for the Commercial division since 1 February 2016. A Swiss citizen born in 1969, he was previously managing director of the Glatt shopping centre, the largest in Switzerland, from 2010 to the end of 2015. Prior to that he worked in various leading roles at IKEA in Switzerland and abroad for 14 years.

Daniel Scheifele joined the company on 1 April and is in charge of the Real Estate division. A Swiss citizen born in 1962, he was previously technical manager at Strabag Switzerland and prior to that Chief Operating Officer and member of the Group Executive Board of the Swiss general contractor Steiner AG.

Long-serving Chief Financial Officer, Daniel Schmucki, was appointed Chief Financial Officer (CFO) of the SIX Group and left the company at the end of January 2017. At the end of 1999 Daniel Schmucki joined Flughafen-Immobilien-Gesellschaft as the company was then called, and from the very beginning made a major contribution to shaping the development of Flughafen

Zürich AG. Since 2008, as CFO and member of the Management Board, he has had the overall responsibility for all financial matters and international activities at the company. During his time as CFO, profitability steadily improved, debt was reduced and the financing of the company completely overhauled. Financing of the major project "The Circle", the new ordinance governing regulated charges, and further expansion of international business were also significant milestones during his time as CFO.

Lukas Brosi was appointed as his successor to head up the Finance division. A Swiss citizen born in 1979, he joined the company as Group Treasurer in 2009 and was appointed Head Treasury & Risk Management shortly thereafter. Three years ago he then took over the reins as Head Financial Services, becoming the Chief Financial Officer's deputy. He assumed his role on 1 February 2017.

Continuous improvement

Adopting a structured approach to continuous improvement, Flughafen Zürich AG regularly reviews and optimises its internal processes and products in order to increase efficiency and consequently to ensure it remains competitive in the long term. This is achieved by applying Japanese Kaizen techniques and associated lean management workshop methodologies. Continuous improvement therefore plays a key role in shaping the company's culture in which each and every employee constantly endeavours to make improvements in his or her particular domain, thereby helping Zurich Airport to cope with future growth and equip it to meet new challenges.



330 m²

TWO NEW HOUR PASSION BOUTIQUES

Hour Passion - the new shopping destination for Swiss watches and jewellery at the Airside Center: two new boutiques opened in 2016, offering a wide range of premium examples of the watchmaker's art. The Airside Center at Zurich Airport now offers even more shopping before departure, in a unique ambience.

EMPLOYEES, SOCIETY AND THE ENVIRONMENT

In addition to employing around 1,700 people, the company also has overall responsibility for controlling one of the most important transport hubs in Switzerland. Zurich Airport is a key economic driver for the whole region. Dialogue with the airport's various stakeholders is therefore of great importance.

FLUGHAFEN ZÜRICH AG AS AN EMPLOYER - GUIDING PRINCIPLES

For the airport operator, its employees are the key to lasting success so its human resources management takes a long-term view. The following summarises the basic principles:

Attractiveness as an employer

By offering modern employment conditions, Flughafen Zürich AG ensures that it is and will remain an attractive and progressive employer. It offers fair, market-based remuneration, equal opportunities for all employees, and promotes their professional development.

Trainees and interns

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

Health management

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

Staff Representation Council (PEV)

Flughafen Zürich AG has a staff representation council which is committed to representing employees' interests and liaises closely with the Management Board. During the reporting period, in keeping with the four-year cycle, elections were held for the seven staff representatives.

Equal pay

Flughafen Zürich AG undertook an analysis of equal pay and found that, on average, the pay gap between women and men is 3%.

To permit an objective statement to be made on equal pay, the average wages must be compared at each function level. When comparing average wages of women and men, only the function levels in which there are sufficient numbers of women/men to permit comparison were analysed.

Employee survey

Another employee survey was conducted in the spring of the reporting period, five years since the previous survey. Both the good level of responses and the ratings themselves are most gratifying, as virtually all the areas covered achieved higher scores than in the last survey. "Attractiveness of Flughafen Zürich AG as an employer" received the best score. The leadership skills of line managers, working climate, strategy and cooperation within the team were all rated "very good".

The goal is now to maintain these good ratings and further consolidate Flughafen Zürich AG's status as a modern employer offering diverse opportunities for professional development. One key approach is creating working conditions which satisfy the new generation and their new demands in regard to combining work and family as well as free time.

Flexible working

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

Currently, 27 % of all employees at Flughafen Zürich AG have part-time contracts. A total of 63 % of women and 12 % of men work part-time.

BVK pension fund restructuring

The decision of the BVK's Board of Trustees to significantly lower the conversion rate will result in noticeably smaller retirement pensions. This was necessitated by increased life expectancy and the persistently low level of interest rates. To offset this, the savings contributions from employees and employers will be increased from 1 January 2017. At the same time, BVK decided to boost the savings of those born in 1968 or later, and also to offer a guaranteed minimum pension for the cohort born in 1956 or later. On the basis of a detailed assessment, the Management Board of Flughafen Zürich AG took the decision to remain with BVK.

SOCIAL RESPONSIBILITY

Over 27 million passengers, around 270,000 flight movements and more than 170 direct connections make Zurich Airport Switzerland's most important airport. For forty years, it has operated on the same runway system, despite the fact that, over the years, passenger numbers have more than quadrupled and the number of flight movements has more than doubled.

Evidently, measures will be necessary in the medium term in order to cope with the projected growth in demand and to preserve Zurich Airport's key role in the economy. It is also clear, however, that growth at Zurich Airport will only be possible if the negative impact of flight operations can be further minimised and the overwhelmingly positive effects of this air transport infrastructure are constantly reinforced. Therefore, Flughafen Zürich AG engages in continual dialogue and discussion with all stakeholders, fostering trust in the company and laying the foundations for adapting operating conditions to the changing requirements and growing demand, so that Zurich Airport can continue its role in making Switzerland an attractive location.

Economic importance

As well as the direct and indirect added value of over CHF 6 billion that Zurich Airport generates, the transport hub has many and varied positive effects on Switzerland as a business and tourism location. Thanks to more than 170 direct connections connecting Switzerland to the major centres in Europe and throughout the world from Zurich, the country in general and the economic region of Zurich in particular enjoy better-than-average

accessibility. The chief beneficiary is Switzerland as a business location. In an ever more globalised world, high accessibility, fast and efficient routes connecting people to global customers and production facilities and export goods to target markets are increasingly important.

However, high accessibility is also an increasingly important factor for the tourism industry. The number of tourists travelling to Switzerland from far-away countries, often only accessible by air, is rising rapidly. The most direct routes possible from and to these markets enhance Switzerland's appeal and ensure that it can participate in this growth.

Associations, interest groups and political dialogue

As in previous years, Flughafen Zürich AG maintained close contact during the last financial year with the many different stakeholders. Besides continuing to cooperate with the other five airports offering scheduled flights under the umbrella of the Swiss International Airports Association (SIAA) and other industry and economic associations such as Aerosuisse and economiesuisse, during the last year dialogue with the political representatives of the neighbouring communities, the Zurich Cantonal Parliament and transport policymakers on the National Council were key activities.

In the course of the consultation on the detailed plan specified in the Sectoral Aviation Infrastructure Plan, Flughafen Zürich AG informed all the affected communities about its content, directly or indirectly through the authorities, and explained Flughafen Zürich AG's stance. As in the previous legislative period of the Zurich Cantonal Parliament, last year all the parliamentary groups were again invited to informal talks about the current challenges and the future of Zurich Airport at the site of the action. A commission meeting at Zurich Airport provided an opportunity to continue and reinforce dialogue and discussion with the members of the National Council's Commission for Transport and Telecommunications.

Promoting regional development in the airport region

As an operator of a major transport hub and a key location factor for the economic region of Zurich and the whole country, Flughafen Zürich AG is naturally heavily involved in promoting local development. As well as indirectly promoting local development by operating flights, Flughafen Zürich AG also actively supports regional development. It is, for example, a founding member of the "Flughafenregion Zürich" association and supports its activity by having a representative on the Board. It also frequently offers platforms for various information and networking events staged by the association.

Last year, for example, the annual VIP event took place in the visitor room at Zurich Airport. As a result, Flughafen Zürich AG is contributing to creating an economically successful and attractive airport region while also raising awareness among an interested public of the many and varied functions of Zurich Airport as a transport hub, location factor and meeting place.

Political environment

If Zurich Airport is to continue serving as an intercontinental hub over the long term, the airport operator needs a regulatory environment that allows for demand-led further development as

otherwise Switzerland's gateway to the world will be unable to survive in competition with other European hub airports.

Security regulations and various politically motivated restrictions are increasingly constraining flight operations, and Zurich Airport is already operating at the limits of its capacity during peak periods. During the reporting period, in the course of the consultation on the report on civil aviation policy (LUPO) published by the Swiss Federal Council, the airport operator called for a clear strategy for overcoming the capacity constraints at Switzerland's largest hub and safeguarding the airport's capacity for long-term development.

At the cantonal level, a broadly supported committee led by the "Pro Flughafen" association launched the people's initiative "Give people the vote on runway modifications!" in 2014, which is intended to result in adjustments to Zurich's Airport Act. The goal is to ensure that the population has a greater say and also – if the Cantonal Parliament's decision is negative – that a popular vote can be achieved through a referendum. Zurich's Cantonal Parliament approved this initiative on 5 September 2016 by a gratifyingly clear majority. The deadline of mid-November 2016 lapsed without a referendum having been held, but a complaint was submitted against the popular initiative. A decision by the Swiss Federal Supreme Court is expected at the beginning of 2018.

Support for politically active employees

Flughafen Zürich AG backs a strengthening of the "militia" political system and supports employees who contribute to Switzerland's success model through their activities in a public body or political office. The airport operator provides the necessary conditions to enable its employees to combine work and public office, irrespective of which level of government they have been elected into. Assistance is tailored to the political office in question. For example, employees may be allowed to take time off work to carry out their official duties or undertake political training.

ENVIRONMENT

ENVIRONMENTAL PROTECTION

Flughafen Zürich AG endeavours to operate and develop the airport in an environmentally responsible way. For many years it has been successfully working to minimise the impact of its operations on nature and the environment. Although the demand for air travel is steadily increasing, bringing with it a need to expand infrastructure, in recent years Flughafen Zürich AG has succeeded in stabilising, and in some cases even reducing, its environmental impact in almost all areas. That such successes are possible is due to the commitment and cooperation of all the airport's partner companies.

Environmental policy and reduction targets

Flughafen Zürich AG's environmental policy sets out the company's position on environmental protection and identifies its priority areas. The company of course does everything in its power to comply with statutory and regulatory requirements at all times. In addition, it is continuously striving to reduce its impact on the environment and improve environmental efficiency. Its efforts are focused on the areas of air traffic noise, air quality, climate protection, energy consumption and the preservation of natural habitats for animals and plants. Alongside its environmental policy, Flughafen Zürich AG has set reduction and efficiency improvement targets for the areas of climate protection and energy.

Environmental management system

Flughafen Zürich AG applies an environmental management system certified to ISO 14001:2015. This system helps the company meet its mandatory obligations (for example laws, regulations, internal requirements) in order to meet environmental targets and continually improve its environmental performance.

Flughafen Zürich AG's environmental management system was recertified during the reporting period according to the revised 2015 standard. An external audit was carried out for the recertification, which takes place every three years, and no deviations were identified. In non-certification years, additional external monitoring audits and internal audits are performed in order to ensure compliance with the standard at all times.

Environmentally friendly construction

At Zurich Airport construction work is always going on, both above and below ground. The environmental impact of all construction projects is evaluated during the planning phase. In the case of more extensive projects which require an environmental impact assessment, an environmental impact report is produced. This report includes an in-depth examination of all the environmental issues the project could significantly impact. External specialists are usually consulted for this analysis. The environmental impact assessment ensures that projects can be carried out with minimal impact on the environment and there are no obstacles to planning consent being granted.

In addition, all construction projects at the airport are subject to Flughafen Zürich AG's "Environmental protection regulations

for building projects". The airport operator thus sets standards which in some cases go beyond the statutory requirements and specify in detail how the environmental protection aspects of construction projects are to be handled. If required to do so, compliance with statutory requirements and any conditions specified by the authorities is verified through environmental monitoring of construction projects by qualified experts.

Communication of environmental issues

Flughafen Zürich AG is committed to transparency and to dialogue with stakeholders. This includes firstly collating and analysing the data on various environmental aspects in order to form an objective picture. Secondly, Flughafen Zürich AG communicates these findings to its partner companies, the authorities and the public via a variety of channels.

2016 saw the opening of a newly developed environmental exhibition to replace the old one which had been on show since 2007. The new concept incorporates film, text and graphics to present a peek behind the scenes at the airport. It shows how seriously environmental protection is taken at Zurich Airport and how Flughafen Zürich AG is tackling the challenges posed. Designed as a mobile exhibition, it has already been shown at various locations around the airport since February 2016. In the autumn it also began touring the adjoining local communities, running in libraries there for four weeks at a time.

International commitment

Thanks to its many years of experience and the expertise it has consequently built up in environmental protection matters, Flughafen Zürich AG is also playing a leading role internationally. This is true in particular for issues such as "local air quality" and "climate protection", where the company is a sought-after partner. Flughafen Zürich AG is active in international bodies, acts as a consultant for other airports and shares its know-how in industry and research projects.

NOISE MANAGEMENT AND RESIDENT PROTECTION

Recording aircraft noise exposure

According to the Federal Noise Abatement Ordinance (NAO), the airport is obliged to measure exposure to aircraft noise. This is calculated annually by the Swiss Federal Laboratories for Materials Testing and Research (EMPA) using actual flight movements and paths as well as emissions data for every aircraft type that passes through Zurich Airport. Since 2015, the results have been summarised and explained in a noise controlling report. If the legally permitted levels of noise exposure are exceeded, counter-measures are identified.

Flughafen Zürich AG also operates a noise measurement network at 14 different fixed noise monitoring terminals. The recorded data are compiled and published monthly in the noise bulletin, enabling trends in noise levels at specific locations to be tracked over the long term. In 2016, daytime aircraft noise levels and during the first hour of the night at all monitoring points remained on a par with the previous year. At the monitoring stations located at the south and west of the airport, noise levels during the second hour of the night were lower.

Noise charge framework

Flughafen Zürich AG seeks to encourage airlines to operate the quietest possible aircraft on their Zurich routes. To this end, it has drawn up a noise charge framework in which all jet aircraft are assigned to one of five noise categories which each have a different charge rate. Different charges are levied for take-off and landing for each of these five noise categories. In addition, the rates for night-time flights vary according to noise category and the specific time of take-off or landing.

Use of the noise protection hangar

In the reporting period, a total of 860 engine ground tests (2015: 840) were carried out in the noise protection hangar. Of these, 360 (41%) were run at night between 10 p.m. and 6 a.m. and 500 (59%) were run during the day between 6 a.m. and 10 p.m.

According to the airport's operating regulations, the permitted noise exposure level may be exceeded 25 times a year; this occurred only once in 2016. As a result of extraordinary occurrences, engine testing was performed outside the noise protection hangar in 15 cases. According to figures provided by the aircraft maintenance firms, 900 idle tests were run on the apron and on the stands. 610 of these were carried out during the day between the hours of 6 a.m. and 10 p.m., and 380 were run at night between 10 p.m. and 6 a.m.

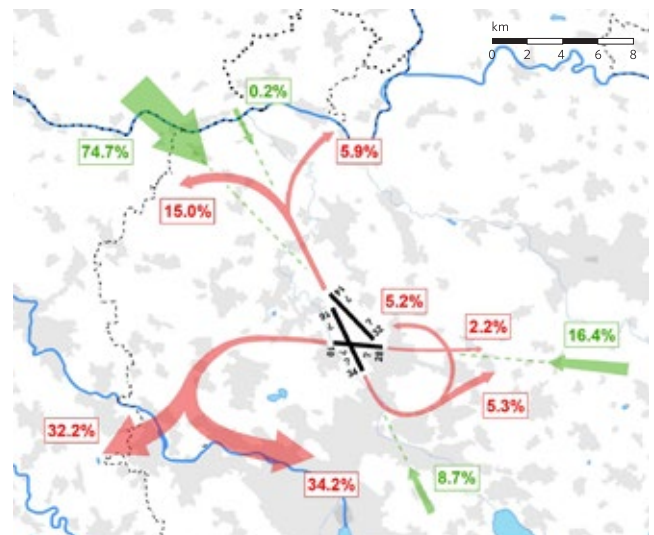
Night flights and special authorisations

The number of flight movements and their distribution across the various runways and flight paths are key determinants of noise levels. Night-time flights in particular (from 10 p.m. to 6 a.m.) are often perceived by residents as a disturbance. In 2016, night flight movements accounted for 4.7% (2015: 4.5%) of total flight movements. Special authorisations were issued for a total of 232 flights (2015: 261 flights) which took place during the night-time curfew (11.30 p.m. – 6 a.m.). Such night flights are only authorised when there are justifiable grounds for them (see Key environmental data table).

Monitoring of take-off routes

Zurich Airport's departure routes and procedures are configured in such a way as to avoid overflying densely populated areas wherever possible. Adherence to these flight paths is mandatory during the daytime up to an altitude of 5,000 feet above sea level, and at night up to flight level 80 (approximately 8,000 feet). The Noise Management department of Flughafen Zürich AG monitors adherence to these so-called noise-optimised flight paths. In the event of a significant deviation from the prescribed routes, the non-compliant departure is investigated in detail. If there are no justifiable reasons, such as the avoidance of storm cells or specific instructions from air traffic control, the pilot in question is contacted and asked to provide a detailed explanation. In the reporting period 154 (2015: 178) investigations were launched and 36 (2015: 28) interviews with pilots or chief pilots were conducted.

DISTRIBUTION OF ARRIVAL AND DEPARTURE ROUTES IN 2016



Percentage allocation of landing and take-off routes

Movements 2016

(Routes with fewer than 50 movements per year are not shown)

Data sources: VECTOR200, swissBOUNDARIES3D: swisstopo

Complaints and queries relating to noise

Dialogue with local residents is important to Flughafen Zürich AG. Residents affected by aircraft noise can call or e-mail Flughafen Zürich AG directly with complaints or queries. Staff in the Noise Management department will respond to specific questions immediately. Statistics compiled on the number of messages received and the reasons for complaints are presented to the Management Board. In 2016, landings on runway 34 constituted the most frequent cause for complaint. In comparison with the previous year, complaints and queries fell by 7%.

Sound insulation measures and reimbursement

In addition to reducing engine noise, the sound insulation programme is a key element in the airport's efforts to minimise aviation noise exposure. The programme includes and finances passive noise protection measures in buildings in neighbouring municipalities. As the airport's operator, Flughafen Zürich AG is obliged by law to fund these protective measures.

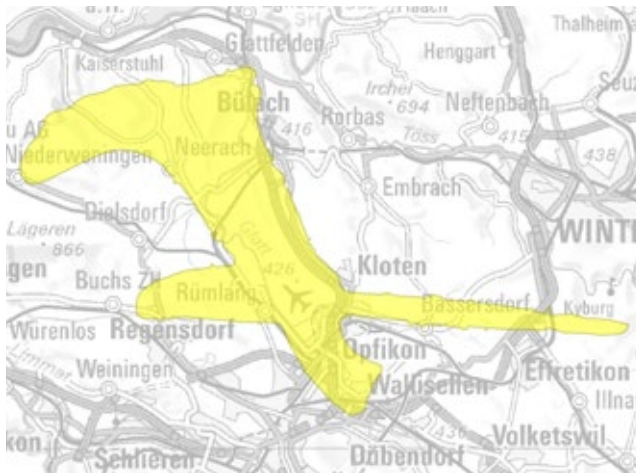
Owners of properties with noise-sensitive rooms which are located within a clearly defined perimeter, and which were not subject to any obligation to install sound insulation during building or conversion, are entitled to benefit from the programme. Property owners who have already taken the initiative of fitting sound-insulating windows themselves are reimbursed by Flughafen Zürich AG.

Between 1999 and 2016, around CHF 220 million was spent on noise protection measures in around 5,500 buildings. Of the approximately CHF 12 million in expenses incurred in 2016, around CHF 9 million was spent on upgrades and around CHF 3 million on reimbursements.

Expanded sound insulation programme

In connection with the approved noise exposure levels and its 2014 operating regulations application, FOCA required Flughafen Zürich AG to submit an expanded sound insulation programme by the end of June 2015. Flughafen Zürich AG duly submitted its 2015 sound insulation programme by this deadline. Over and above the CHF 240 million for sound insulation and resident protection estimated in the "Programme 2010", on 22 June 2015 the Board of Directors approved further measures for the 2015 sound insulation programme worth a total of CHF 100 million. FOCA gave its approval in December 2016. The matter is currently pending before the Swiss Federal Administrative Court. The legally valid sound insulation programme should be implemented within ten years.

2015 SOUND INSULATION PROGRAMME



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

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South-side sound insulation concept

For the owners of houses and apartments whose properties are located within a defined perimeter under the southern approach route, do not fall within the scope of the 2015 sound insulation programme, and were built before 2011, Flughafen Zürich AG offers free installation of window-closing systems or sound-absorbing ventilators in the bedrooms. The aim is to prevent local residents being awoken by early-morning inbound flights from the south. This equipment is being installed in numerous properties in the Zurich districts of Schwamendingen, Stettbach, Opfikon, Wallisellen and Gockhausen. The south-side sound insulation concept is to be completed by December 2017.

AIR QUALITY

From emissions to immissions

At Zurich Airport, the pollutants that affect air quality are primarily nitrogen oxides (NO_x), particulate matter (PM) and ozone (O_3). These are primarily produced by the combustion of fossil fuels such as diesel or kerosene. The majority of emissions arise directly from aircraft whose engines and auxiliary power units are responsible for around 90% of total nitrogen oxide emissions attributed to the airport. Once discharged into the atmosphere, these pollutants do not remain as they are – their composition changes, they are diluted and dispersed before they act as immissions or pollutants. It is therefore necessary to distinguish between emissions and immissions.

Flughafen Zürich AG maintains an emissions inventory for each individual harmful substance, recording exactly how much is emitted annually. As it is not possible to measure emissions at all sources, this inventory draws on calculations. In the case of aircraft, for instance, there is a document for each engine which states its emissions. This allows a very accurate picture of the emissions situation to be built up.

The immissions are the critical factor in terms of impact on people and the environment. They are calculated using mathematical models on the basis of the emissions inventory and the meteorological conditions. Numerous parameters flow into the calculations. Additional measurements with monitoring equipment located at the airport and in the surrounding region confirm the high level of accuracy of the models. At Zurich Airport there are several fully automatic electronic monitoring stations which are operated by the Office for Waste, Water, Energy and Air (AWEL) of the Canton of Zurich. AWEL also operates a network of monitoring stations on behalf of the airport which measure levels of the main pollutant, nitrogen dioxide.

Pollution situation

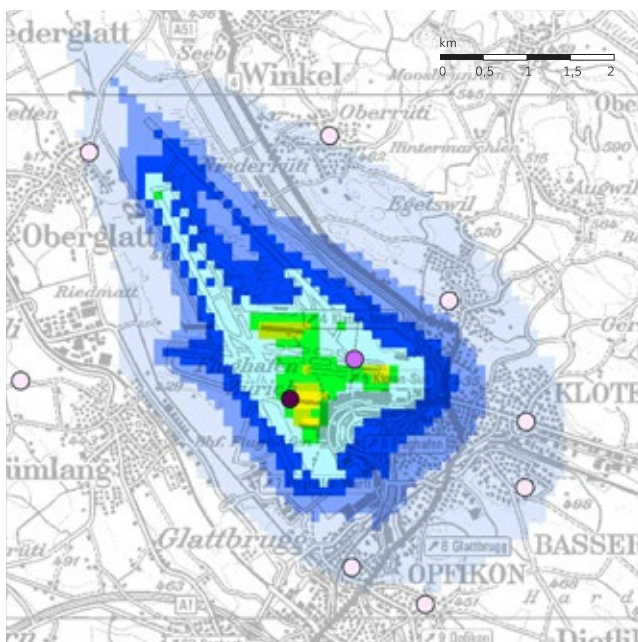
The quantity of nitrogen oxide emissions (NO_x) increased substantially in the reporting period (+11%). This is primarily because of an increase in emissions arising from the take-off and landing phase of aircraft. On the one hand this is due to the higher number of flight movements generally. At the same time, new long-haul aircraft types have been introduced in Zurich which emit far more NO_x than their predecessors. Moreover, during their launch phase these new long-haul aircraft are often deployed on short-haul flights for training purposes, so for a limited time they perform a disproportionately high number of take-offs and landings.

The increase in emissions, however, was not accompanied by a corresponding rise in immission levels. In fact, the latter actually went down slightly compared with the previous year. This can be explained by the different meteorological conditions. These have a significant influence and, compared with the previous year, in 2016 the conditions promoted the mixing of the air, which consequently helped to dilute and transport the air pollutants away. Although limit values continue to be exceeded at certain individual monitoring points, such as on the apron and along busy roads in the region, pollution levels fall very quickly the further away one gets from the airport. Outside its perimeter, the amount of pollution arising from the airport accounts for 10% of the total air pollution at most.

Measures to reduce pollutant emissions

Various measures help to reduce pollutant emissions at the airport. The airport operator has levied emission-based landing charges since 1997, and in this way has contributed to the development of low-pollution engines. Other ongoing measures include, for example, the systematic use of fixed ground power systems or the deployment of gas-powered vehicles on the apron. Use of electric vehicles, which produce no emissions during operation, is also being steadily extended. During 2016, more docks were equipped with charging points which enable ground handling partner companies to charge their electric vehicles and equipment, which consequently do not produce exhaust gases.

IMPACT OF THE AIRPORT ON LOCAL AIR QUALITY



NO₂ concentration 2016

Modelled airport sources

NO₂ in µg/m³

Percentage of measured total

| | | |
|----------|-----------|-----------------------|
| ○ < 1 | ● 10 - 15 | ○ < 10 % |
| ● 1 - 2 | ● 15 - 20 | ● 10 - 25 % |
| ● 2 - 3 | ● 20 - 30 | ● 25 - 50 % |
| ● 3 - 5 | ● 30 - 40 | ● > 50 % |
| ● 5 - 10 | ● > 40 | ○ Monitoring terminal |

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GLOBAL CLIMATE

Protecting the global climate is one of the most pressing challenges in terms of the environment. Worldwide, aviation accounts for around 3.5% of anthropogenic global warming to date. Airports are part of this system but they contribute only minimally to the problem.

CO₂ sources at the airport

Of the known greenhouse gases, only carbon dioxide (CO₂) is produced in relevant quantities at Zurich Airport. As stipulated by the Greenhouse Gas Protocol (GHG Protocol) and other directives from Airports Council International (ACI), each year the quantities emitted are collated from all sources and recorded in a CO₂ inventory.

In accordance with the Greenhouse Gas (GHG) Protocol, the CO₂ sources at the airport are allocated to different spheres of influences known as "scopes". Scope 1 comprises "airport-owned or controlled sources". These mainly include heating systems, own electricity production, and Flughafen Zürich AG's vehicle fleet. Scope 2 is "off-site electricity generation", i.e. electricity that is bought in. Finally, scope 3 covers "other airport-related sources". This includes all ground handling vehicles and equipment, feeder traffic, and the aircraft themselves.

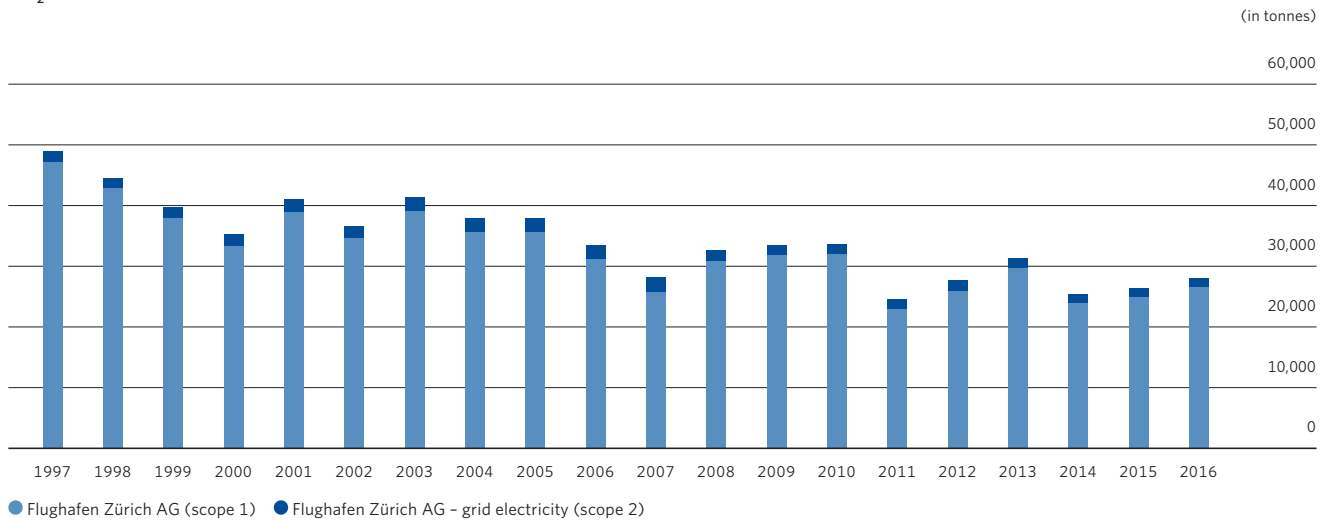
Flughafen Zürich AG can influence scopes 1 and 2 directly. However, these account for only around 1% of the total emissions at Zurich Airport. All other emissions fall within scope 3, with the vast majority of emissions being attributable to aircraft on flights to their destinations. With regard to aircraft emissions, important decisions were taken in 2016 at the international level by the International Civil Aviation Organisation (ICAO). For instance, a CO₂ limit was introduced for aircraft which will come into force from 2020, and in 2028, following a transitional period, all manufacturers worldwide will be obliged to limit CO₂ emissions for all new aircraft built. At the same time, as they have been steadily rising to date, the decision was taken to stabilise CO₂ emissions of global aviation at the level of 2020 from 2027.

At the airport itself, these decisions have an impact on scope 3. Flughafen Zürich AG is helping airlines reduce their carbon dioxide emissions at the airport through initiatives such as optimised taxiing and departure procedures to avoid aircraft having to wait with their engines running, and the restriction on the use of auxiliary engines while an aircraft is being supplied with electrical power and air conditioning from fixed ground power systems.

CO₂ emissions in 2016

In the reporting period, CO₂ emissions at Zurich Airport amounted to 26,505 tonnes in scope 1, 1,484 tonnes in scope 2 and 3,912,402 tonnes in scope 3. An increase of 7% in scope 1 thus contrasts with a decrease of 6% in scope 2, compared with the previous year. This is due primarily to the different meteorological conditions: whereas temperatures in 2015 were above the long-term average with a concomitant reduction in heating but higher cooling requirements, in 2016 they were more in line with the average. CO₂ emissions from heat generation (scope 1) were therefore higher, while those from cooling systems (electricity from scope 2) were lower.

CO₂ EMISSIONS AT ZÜRICH AIRPORT BY SCOPE SINCE 1997



Voluntary reduction targets

In the past, Flughafen Zürich AG has succeeded in steadily reducing CO₂ emissions from the sources it is able to influence directly (scopes 1 and 2). The company has voluntarily set itself reduction targets. It has already met the 2020 target for bringing emissions under scopes 1 and 2 down to less than 30,000 tonnes CO₂. It aims to reduce emissions further to just 20,000 tonnes by 2030. This represents a reduction in CO₂ emissions of more than 50 % compared with 1991, despite a steadily expanding infrastructure.

Airport Carbon Accreditation

Flughafen Zürich AG's climate protection programme has been recognised by Airport Carbon Accreditation since 2010. The company is accredited at the second-highest level, which means that it is continually reducing its own CO₂ emissions and that it actively involves its airport partners which can also make a significant contribution to reducing CO₂ emissions across the whole airport. Airport Carbon Accreditation is a certification system launched by ACI Europe, the European chapter of Airports Council International which now includes airports on all continents. It has four levels of award, with the highest level signifying that airport operations are carbon-neutral.



ENERGY

Energy Strategy 2030

Since 2013, Flughafen Zürich AG has been following its "Energy Strategy 2030" which aims to ensure a secure, economic and environmentally responsible energy supply for Zurich Airport both today and in the future. The main objectives are to reduce primary energy consumption, smooth out peak demand and increase the airport's energy autonomy.

Energy technologies

Flughafen Zürich AG uses a number of different technologies and forms of energy in order to provide reliable and efficient heating, air conditioning and electrical power. Energy for heating is generated primarily in the airport's own heating plant run on natural gas. The two-stage combined heat and power generation system produces a high level of energy efficiency, as electricity is produced and the resulting waste heat is used to heat the airport buildings. Heat is pumped into the buildings via an extensive underground district heating network. Thanks to the renovation of the building envelopes and modernisation of the building services systems, the overall demand has fallen steadily over the years.

More than half the heating and cooling requirements at Dock E can be met by alternative energy. 310 concrete piles that extend down 30 metres into the ground, into which a pipe loop is inserted, function as "energy piles". In the summer, the liquid circulating in the pipes conducts waste heat in the building down into the ground. In the winter, the energy can be brought up out of the ground again. The energy piles for "The Circle" are also being built in this way.

A photovoltaic installation is located on the roofs of Dock E and car park P6. Other systems are being planned, one of which will be at "The Circle".

Energy demand

Requirements for heating at Zurich Airport totalled 102,808 MWh in 2016 and 165,556 MWh for electricity. This results in a total demand of 517,650 MWh primary energy. Primary energy also includes the energy necessary for generation and transmission which is required before a specific energy vector is used as final energy (electricity, heating). This makes the effective energy input more transparent and consequently enables different types of energy to be compared directly.

FINAL ENERGY

| Trend in Zurich Airport's final energy use | 2016 | 2015 | 2014 |
|--|---------|---------|-----------------------|
| Heat consumption by the airport (MWh) | 102,808 | 97,544 | 92,103 ¹⁾ |
| Electricity consumption by the airport (MWh) | 165,556 | 166,044 | 189,151 ¹⁾ |

1) Based on old system boundary which included more buildings than the current system.

Large-scale consumers agreement

As a major consumer of energy, Flughafen Zürich AG signed an agreement with the Building Department of the Canton of Zurich. This agreement stipulates efficiency improvements of 2 % a year, measured on the basis of the number of user units and the heated area of the airport. At the same time, it frees the company from some specific energy regulations and allows it more autonomy to implement measures in the best way possible for its operations.

Measures

The energy targets set require action to be taken at all levels. Renovating buildings has the biggest direct impact on reducing energy demand. At the same time, one team is looking at continually optimising existing systems in order to make savings. For instance, waste heat recovery in the Airport Center has been optimised, and the hot water supply has been converted to an efficient heat pump. Another step is the newly introduced Energy Management System (EMS). In 2016, a pilot project with electricity meters was conducted. The system will be introduced in stages beginning in 2017. This will enable detailed data on the consumption of electricity, heat, cooling and water to be gathered. These data are the basis for a general optimisation of energy requirements.

NATURE AND LANDSCAPE

The airport's green spaces

It is important to protect the airport as a habitat for plants and animals. Of 916 hectares in total, 780 are fenced off, and around half of this comprises green spaces. 74 hectares are woodland and nature conservation areas, of which 37 hectares have been designated as constitutionally protected marshland. These tracts are the remnants of extensive reed meadows that covered this area before the airport was built. Today, there is a mosaic of natural areas at Zurich Airport which are of very high ecological value in some cases, providing a refuge for rare plants and animals. For instance, since the fence protects it from being disturbed by humans and domestic animals, the reed beds offer the rare Eurasian

bittern the ideal winter quarters that are now rarely to be found elsewhere in central Switzerland.

Maintenance and bird strikes

For many years now, Zurich Airport has endeavoured to preserve the ecological value of its green spaces. At the same time, safety needs to be taken into account. This includes regularly maintaining the green spaces. An annual maintenance plan records suitable measures for the various areas, ranging from simple mowing through to large-scale bush clearance. These measures are carried out by Flughafen Zürich AG in cooperation with farmers and land managers in the region.

Most of the open spaces at the airport are managed as extensive high-grass meadows. This is not only of ecological value, it also reduces the risk of bird strikes, i.e. aircraft colliding with birds in the air. The grass is left uncut for as long as possible, which makes it difficult for birds of prey to spot prey on the ground and therefore makes the area less attractive to them. At the same time, flocking birds do not like sitting in the high grass either. Another way of reducing the bird strike risk is to encourage specific predators on the ground. These include foxes or weasels, for example, which decimate the numbers of field mice and other small mammals and thereby reduce the food supply for birds of prey.

Environmental offsetting

Preserving ecological value also requires taking steps to protect green spaces from the impact of building projects. Flughafen Zürich AG is obliged to establish in advance the ecological value of green spaces on which it intends to build, and to offset this with measures of equal value. For one specific project, Flughafen Zürich AG recently planned, implemented and funded the ecological remediation of habitats along the river Glatt to the south of Glattfelden to offset the green spaces that the airport had covered over.

WASTE

Environmentally responsible waste disposal

Flughafen Zürich AG is committed to the sustainable use of materials. It strives to reduce waste volumes, collect recyclables separately and dispose of residual waste in an environmentally responsible manner. In the reporting period, the waste bins in the public zone were redesigned to enable PET and aluminium to be collected separately as well. Materials that cannot be reused or recycled end up as residual waste which in Switzerland is burned in waste incineration plants. There it can be thermally treated, and the heat produced can be used to generate electricity and supply district heating networks.

Trend

In the reporting period, 17,926 tonnes of waste were produced, representing a year-on-year increase of 1 %. The proportion of mixed waste rose from 53 % to 55 %. By contrast, the proportion of waste sent for recycling declined from 46 % to 45 %. To enable a comparison with other airports to be made, the quantities indicated were defined by the German airports association (ADV). The quantity of recycled paper / cardboard fell from 3,568 tonnes to 3,347 tonnes. The same applies to the quantity of PET, which declined from 147 tonnes to 143 tonnes.

CONSUMPTION OF DE-ICING AGENTS AT ZURICH AIRPORT

| Consumption of de-icing agents at Zurich Airport | 2015 / 2016 | 2014 / 2015 | 2013 / 2014 |
|---|-------------|-------------|-------------|
| Aircraft de-icing agents (in m ³) | 1,390 | 1,741 | 860 |
| Runway and road de-icing agents, formiate solution (in m ³) | 901 | 1,548 | 732 |
| Surface de-icing agents, solid (in tonnes) | 7 | 0 | 0 |
| De-icing salts for other surfaces (in tonnes) | 243 | 474 | 218 |
| Treatment rate (aprons, runway and taxiways, in %) | 93 | 90 | 79 |

Reducing the amount of liquids confiscated at the security check-point remains a key objective. In the reporting period, various measures enabled the quantity to be reduced compared with the previous year despite passenger growth, from 239 tonnes to 229 tonnes.

WATER AND WATER PROTECTION

Fresh water consumption

Consumption of drinking water in the reporting period was up 8 % on the previous year, at 609,053 m³. In addition, 118,066 m³ of groundwater (–29 %) was pumped, some of which was used in technical installations. 12,778 m³ of rainwater was used for toilet flushing, an increase of 31 % compared with the previous year. Taken together, 739,897 m³ of fresh water were used, which is virtually the same as in 2015. Consumption of fresh water per passenger amounted to 26.7 litres.

Domestic and industrial waste water

Various types of waste water arise at Zurich Airport. Domestic waste water, e.g. from the toilets or restaurants, is channelled into the local sewage treatment plant at Kloten-Opfikon, where it is treated. Industrial waste water from the workshop is also cleaned in this sewage plant, although this requires pre-cleaning in some cases. The airport also generates other special types of waste water (e.g. aircraft sewage) which is also pre-treated before being sent to the Kloten-Opfikon sewage plant or otherwise appropriately disposed of.

Aircraft and runway de-icing

In order to ensure safe flight operations in winter, Flughafen Zürich AG must keep both aircraft and the operational areas and roads free of ice. Compared with the long-term average, the winter of 2015/16 was warmer, with very little precipitation at times. As a result, the volume of de-icing agents required was significantly less than during the previous winter. 1,390 m³ of propylene glycol were used for aircraft de-icing (–20 % compared with the previous year). A total of 901 m³ of liquid de-icing agents were required for runways, taxiways and aprons (–42 %). 243 tonnes of conventional de-icing salts were additionally used on roads, in the car parks and around the maintenance area (–49 %).

Treatment of waste water from de-icing operations

De-icing aircraft with hot water and propylene glycol as well as spraying formate-based de-icing agents on operational areas results in waste water contaminated with carbon compounds. If uncleaned waste water were to enter natural watercourses, it would remove oxygen from the water, which would be a major problem for aquatic organisms. To prevent this, the de-icer runoff is collected and is then treated depending on the level of carbon concentration. Lightly polluted de-icer runoff is channelled through retention filter basins and then into the Glatt. Medium-contaminated waste water is sprayed over grassed areas using a special sprinkler system. As the water filters down through the soil, the glycol it contains biodegrades completely. Heavily contaminated runoff is treated in the airport's own concentration plant, which processes the glycol so that it can be sent for industrial recycling, thus closing the materials cycle.

Of the de-icing agents used, a portion is blown into the green spaces along the runway during take-off where the carbon compounds biodegrade. Of the rest, 93 % was collected and treated in the winter of 2015/16 (see table above). 29 tonnes (2015: 45 tonnes) or 7 % flowed untreated into the Glatt.

KEY ENVIRONMENTAL DATA FOR ZÜRICH AIRPORT

| | 2016 | 2015 | 2014 |
|--|-----------------------------|-------------|-----------------------------|
| NO _x emissions (in tonnes) | 1,280 | 1,153 | 1,107 |
| Proportion from aircraft (in tonnes) ¹⁾ | 1,174 | 1,048 | 999 |
| VOC emissions (in tonnes) | 334 | 303 | 278 |
| Proportion from aircraft (in tonnes) | 224 | 202 | 187 |
| CO emissions (in tonnes) | 1,494 | 1,334 | 1,271 |
| Proportion from aircraft (in tonnes) | 1,385 | 1,217 | 1,149 |
| PM emissions (in tonnes) | 21 | 21 | 19 |
| Proportion from aircraft (in tonnes) | 15 | 16 | 14 |
| CO ₂ emissions at Zurich Airport, scope 1 ²⁾ (in tonnes) | 26,505 | 24,773 | 23,838 |
| CO ₂ emissions at Zurich Airport, scope 2 ³⁾ (in tonnes) | 1,484 | 1,582 | 1,519 |
| CO ₂ emissions at Zurich Airport, scope 3 ⁴⁾ (in tonnes) | 3,912,402 | 3,632,395 | 3,487,625 |
| Overall consumption primary energy (MWh) | 517,650 | 517,083 | not available ⁵⁾ |
| Annual water consumption (in m ³) | 739,897 | 738,291 | 703,923 |
| Overall waste amount (in tonnes) | 17,926 | 17,723 | 17,653 |
| of which recyclable material (e.g. paper, cardboard, glass, wood) (in %) | 44.6 | 46.1 | 44.7 |
| Confiscated liquids from security checks (in tonnes) | 229 | 239 | 226 |
| Number of residents ⁶⁾ above alarm value for SL II ⁷⁾ | not available ⁸⁾ | 5,218 | 5,051 |
| Number of residents above immission limit for SL II | not available ⁸⁾ | 55,979 | 55,785 |
| Number of residents above the planning value for SL II | not available ⁸⁾ | 155,281 | 154,541 |
| Zurich aircraft noise index monitoring value (ZFI) | not available ⁸⁾ | 61,916 | 61,381 |
| Number of noise monitoring terminals (in operation) | 14 (14) | 14 (14) | 14 (14) |
| Daytime aircraft noise levels ⁹⁾ at NMT 1/3/6/10 (dB[A]) ¹⁰⁾ | 67/58/66/58 | 66/58/66/58 | 67/59/66/58 |
| Number of registered flight path deviations / investigated | 4,055/154 | 3,927/178 | 5,964/141 |
| Number of night flight movements (10 p.m. – 6 a.m.) | 12,369 | 11,518 | 10,914 |
| Proportion in the first hour (10 – 11 p.m.) | 9,827 | 9,074 | 8,618 |
| Number of special authorisations for night flights issued ¹¹⁾ | 232 | 261 | 222 |
| of which emergency, relief and rescue flights | 66 | 77 | 63 |
| of which police, military and government flights | 20 | 29 | 21 |
| of which various other types of flight | 146 | 155 | 138 |
| 2010 Sound Insulation Programme: number of properties fitted ¹²⁾ | 5,500 | 5,100 | 4,750 |
| Number of complaints and queries relating to noise ¹³⁾ | 2,017 | 2,423 | 3,143 |

1) Flight operations in LTO cycle (up to 915 metres), taking into account actual engine power, APU, engine start-up and airframe

2) In accordance with the GHG Protocol: Flughafen Zürich AG's own sources (vehicles, machinery, heating)

3) In accordance with the GHG Protocol: Electricity sourced by Flughafen Zürich AG externally

4) In accordance with the GHG Protocol: Aircraft in LTO cycle and complete route (outbound flight only), calculated by Eurocontrol, other emissions sources at the airport (handling, other heating) and all landside traffic in the vicinity of the airport (approx. 3 kilometres) for all modes of transport

5) This figure was not published prior to 2015.

6) Encompassing noise contours of the day and night noise limits.

7) Sensitivity level II (SL II) in accordance with Art. 43 of the Federal Noise Abatement Ordinance.

8) Figures will be calculated by Empa and published only after this report is printed.

9) Energy-equivalent continuous sound level of daytime aircraft noise (6 a.m. – 10 p.m.).

10) NMT = Noise Monitoring Terminal, 1 = Rümlang, 3 = Oberglatt, 6 = Glattbrugg, 10 = Nürensdorf.

11) Special authorisations can be granted for urgent flights operating during the night-time curfew.

12) Number of buildings and properties which have been renovated to date incl. Reimbursements.

13) Includes complaints and enquiries relating to noise levels, flight paths, development of the air traffic, etc.

BACKGROUND DISCUSSION WITH CAROLINE ZIKA

HEAD OF TRAINEES AND INTERNS, FLUGHAFEN ZÜRICH AG

As well as operating Switzerland's biggest international airport, Flughafen Zürich AG is also a trainer of young talents. The company considers providing basic vocational education to be both an economic necessity and a social duty. Some 50 trainees in 11 branches of basic training benefit from this. Internships are also part of the training offered. Caroline Zika is in charge of this training programme and has contributed her personal commitment, a high degree of professionalism and innovative spirit to this role for nine years.



FLUGHAFEN ZÜRICH AG (FZAG) Many young adults apply for an apprenticeship at our company each year. Reviewing application documents and conducting interviews take up a lot of time.

CAROLINE ZIKA (CZ) Yes, the application process is time-consuming. But I am enthusiastically supported in this by my team. I guess you could call me a hub for various stakeholders: applicants, trainees, trainers, parents, teachers at upper secondary and vocational schools and universities of applied sciences. I really enjoy the variety, switching between applicant management, the hub function and engaging with young people.

FZAG What makes us different from other companies?

CZ With our 50 trainees and a workforce of around 1,700, we're average. What sets us apart on the apprenticeship market is the diverse range of training we offer. Time and again, I hear us being referred to as "exotic" because we offer unusual occupations that aren't necessarily associated with an airport.

FZAG Flughafen Zürich AG recently introduced new basic training programmes – what are they?

CZ So that we can one day integrate qualified skilled workers into the company and specifically nurture young talent, in the last two years we have introduced basic training qualifications for drainage technician, line electrician and building cleaner roles. Also, we have added the new "In-house services" specialisation to the operational maintenance specialist training. Sustainability is very important here. We are continually considering and reviewing which specialists and generalists we will need at the company in the future, in order to operate and maintain the airport.

FZAG So sustainability is paramount.

CZ Among other things. When it comes to internal development programmes and as a measure to combat youth unemployment. Young adults often struggle to find a job after completing their

apprenticeship, because they have no professional experience. In these cases, we want to serve as a point of contact for our newly-qualified apprentices and support them in their job search – particularly if we were impressed with their achievement and commitment during their time training.

FZAG So is there one particular training programme that is evergreen?

CZ The basic commercial training programme and the IT Technician apprenticeship remain hugely popular with young people. We receive the most applications for these. It is becoming increasingly hard to find trainees in the skilled manual professions, due to young people's professional interests and demographic trends.

FZAG So can you select the crème de la crème for the popular training programmes?

CZ We meticulously review every application we receive. If the application file and candidate has that "certain something", we invite them to an interview and a taster session. But the academically weaker ones or "candidates by default" also have a good chance of an apprenticeship at our company based on how they present themselves, their motivation or their will to succeed. Our trainees have completed various educational routes and are of differing ages, but that's precisely what makes it so exciting for our trainers. Incidentally, in the last nine years, all of our trainees have successfully completed their apprenticeships. Which is, of course, a source of great satisfaction to us.

FZAG Are there other success stories?

CZ The introduction of the basic training as building cleaner is one example. We have recruited five trainees. Three of them are former employees in building cleaning who were highly motivated by the opportunity to complete initial training. Most of the trainees on this basic programme have a migrant background and are a little older, around 25 years old on average. At this age in particular, it takes courage to face the challenges

of training and of learning with mostly younger trainees. The older trainees also unwittingly serve as role models to the younger ones – it's great to see how mutual learning and support in different life situations unfolds.

FZAG How do the trainees differ from the interns?

CZ Our programme for interns is geared exclusively towards candidates who, at the time of the internship, are either completing a course of study or are aiming to embark on one that requires both work and practical experience. Because of this, their motivation and professional benefit are high. The internships in the various specialist areas last between three and twelve months.

FZAG What hopes do you have for trainees and interns?

CZ I would like us to further expand our breeding ground for talent in future – particularly in the technical and manual professions – in order to counteract the skills shortage and keep the specialists we have trained within our company for the long term, in an appropriate and profitable way.

After various assistant roles, Caroline Zika, who holds a commercial qualification, made a bold sideways move into the IT sector and joined Flughafen Zürich AG as an IT Assistant in 2001. After the then Swissair was grounded, her department was entrusted with the task of reorganising all the IT services at the airport. Caroline Zika formed the IT sales team and the internal sales department, gaining her early managerial experience in the process. In 2007, the two specialist divisions Trainees and Interns were united under Caroline Zika, marking the expansion of vocational training at Flughafen Zürich AG.

18 sets of wands

AIRCRAFT MARSHALLERS AT ZURICH AIRPORT

18 marshalls at Zurich Airport direct pilots into the right positions as required. Nine pairs of paddle wands and illuminating wands are used to help an average of around 15 scheduled and charter flight aircraft and 30 general aviation aircraft a day to manoeuvre into position correctly.



CORPORATE GOVERNANCE

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

GROUP AND CAPITAL STRUCTURES

Group structure

For details concerning the group operational structure, please refer to the section on segment reporting (see Financial report, Consolidated financial statements according to IFRS, Notes to the consolidated financial statements, pages 75 to 78). Apart from Flughafen Zürich AG, Kloten (securities no. 31941693, ISIN

CH0319416936), which was listed on SIX Swiss Exchange with a market capitalisation of CHF 5.8 billion as at the balance sheet date, the consolidated group does not comprise any other listed companies. However, it does include the following unlisted companies:

| Company | Domicile | Share capital | Stake held |
|------------------------------------|-------------------|-------------------|------------|
| Zurich Airport International AG | Kloten | CHF 100,000 | 100.0 % |
| Zurich Airport Latin America S.A. | Santiago de Chile | CLP 4,403 million | 100.0 % |
| A-port Operaciones S.A. | Santiago de Chile | CLP 1,352 million | 62.0 % |
| A-port Operaciones Colombia S.A.S. | Bogotá | COP 100 million | 62.0 % |
| Unique IDC S.A. de C. V. | Tegucigalpa | HNL 200 million | 62.0 % |

Capital structure

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

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

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

| (CHF 1,000) | 31.12.2016 | 31.12.2015 | 31.12.2014 |
|---------------------------------|------------------|------------------|------------------|
| Share capital | 307,019 | 307,019 | 307,019 |
| Legal capital reserves | | | |
| Capital contribution reserves | 411,744 | 509,980 | 509,980 |
| Legal retained earnings | | | |
| General legal retained earnings | 42,370 | 42,370 | 42,370 |
| Voluntary retained earnings | 109,470 | 109,168 | 108,707 |
| Available earnings | | | |
| Profit brought forward | 933,342 | 757,745 | 605,666 |
| Profit for the year | 272,312 | 267,694 | 234,960 |
| Treasury shares | -855 | -642 | -1,098 |
| Total equity | 2,075,402 | 1,993,334 | 1,807,604 |

SHAREHOLDER STRUCTURE AND VOTING RIGHTS

Major shareholders

As at 31 December 2016, the Canton of Zurich held 33.33 % plus one share, and the City of Zurich held 5 % of the company's shares/voting rights. There were no other shareholders entered in the Share Register whose holdings exceeded 3 % of the total number of shares with voting rights. Information about shareholdings in excess of or below the thresholds specified in Article 120 of the Financial Markets Infrastructure Act (FMIA), published during the reporting period can be found on the publication platform of the Disclosure Office of SIX Swiss Exchange at www.six-exchange-regulation.com/obligations. 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 is exceeded, it shall be raised to 49 %. No clauses exist regulating a change of control in favour of members of the Board of Directors or Management Board.

Limitation of transferability of shares/voting rights and nominee registrations

Registration with voting rights is limited to 5 % of the share capital. This limit applies both to individual investors and groups of shareholders, with the exception of the Canton of Zurich (limit = 49 %) and the City of Zurich (limit = 10 %). Other 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 reporting period.

Limitations of transferability are set forth in Article 6 of the company's Articles of Incorporation. See also: www.zurich-airport.com/the-company/investor-relations-en/financial-results-reports/corporate-documents. They can be amended by a 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 the inclusion of items on the agenda, no statutory regulations exist that deviate from the relevant legal provisions. In accordance with Article 699 para. 3 of the Swiss Code of Obligations, shareholders representing shares with a par value of CHF 1.0 million may request that items be included on the agenda. In accordance with Article 12 para. 3 of the company's Articles of Incorporation, the relevant requests must be submitted in writing to the Board of Directors of the company together with proof of entitlement, an exact description of the requested item and a specifically formulated resolution proposal. Only requests that are received by the company in good time, i.e. at least 60 days before the date of the General Meeting, can be considered.

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

A qualified majority in accordance with Article 704 of the Swiss Code of Obligations is required for the following cases in addition to those defined in the above legal provisions:

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

BOARD OF DIRECTORS

Election and term of office

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

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

Members

Andreas Schmid

- Chairman of the Board of Directors since the 2000 General Meeting of Shareholders.
- Swiss citizen, born in 1957, MA (Law); Member of the Mövenpick Executive Board of Management from 1993 to 1997 and then CEO of Jacobs AG (until 2000); CEO of Barry Callebaut AG (until mid-2002), Chairman of the Board of Directors of Barry Callebaut AG from 1999 to 2005, Vice-Chairman of the Board of Directors of Barry Callebaut AG since December 2005 and Member of the Board of Directors since December 2014; Chairman of the Board of Oettinger Davidoff Group since December 2007.
- Other activities and commitments: Chairman of the Board of Directors of gategroup Holding AG and Helvetica Capital AG, Member of the Board of Directors of Steiner AG, Member of the Advisory Board of Alliance Global Corporate Specialty AG and Chairman of the Avenir Suisse Foundation Board.

Vincent Albers

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

Guglielmo Brentel

- Member of the Board of Directors since 2014 General Meeting of Shareholders.
- Swiss citizen, born in 1955, commercial apprenticeship, Swiss federal diploma as administration officer, Swiss Hospitality Management School in Lausanne with Swiss federal diploma; various positions in advisory services for the hotel and tourism sector since 1989; founder, owner and managing director of H&G Hotel Gast AG.
- Other activities and commitments: Member of the University Council of HTW Chur.

Corine Mauch

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

Eveline Saupper

- Member of the Board of Directors since May 2015.
- Swiss citizen, born in 1958, PhD (Law); attorney-at-law and federally qualified tax expert; degree from the University of St. Gallen; positions in tax and company law at Homburger AG since 1985, from 1994 to 2014 as Partner and since 2014 “of counsel”.
- Other activities and commitments: Member of the Board of Directors of Syngenta International AG, Georg Fischer AG, Stäubli Holding AG, Mentex AG, hkp Group AG (until June 2017), Clariant AG and the Hoval Group.

Kaspar Schiller

- Member of the Board of Directors since 2004 General Meeting of Shareholders.
- Swiss citizen, born in 1947, PhD (Law); attorney-at-law, partner in the legal practice of Schiller Rechtsanwälte AG, Winterthur since 1978.
- Other activities and commitments: none.

Ulrik Svensson

- Member of the Board of Directors since 2008 General Meeting of Shareholders.
- Swedish citizen, born in 1961, degree in business administration from the Stockholm School of Economics; CFO at companies in London and Luxembourg and then at Swiss International Air Lines AG (2003 to 2006), CEO of Melker Schorling AB, Stockholm since 2006.
- Other activities and commitments: Member of the Board of Directors of Assa Abloy AB, Loomis AB, AAK AB, Hexpol AB and Hexagon AB.

Carmen Walker Späh

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

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

According to Article 19 of the company's Articles of Incorporation, the number of additional mandates that members of the Board of Directors are permitted to hold in the most senior managerial or administrative organs of legal entities outside the scope of consolidation of the company is restricted to five mandates at

listed companies and ten mandates at unlisted companies, and to an additional ten mandates at other legal entities entered in the Commercial Register.

Internal organisation

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

Vice-Chairwoman of the Board of Directors: Eveline Saupper

The Board of Directors has formed the following committees:

Audit & Finance Committee

Members: Ulrik Svensson (Chairman), Guglielmo Brentel, Carmen Walker Späh, Andreas Schmid

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

Nomination & Compensation Committee

Members: Kaspar Schiller (Chairman), Eveline Saupper, Vincent Albers, Andreas Schmid (are elected by the General Meeting of Shareholders for one year at a time)

Duties: This committee deals with all issues relating to the nomination and/or removal of members of the executive management of the Group, including their compensation and questions relating to succession planning. It 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.

Public Affairs Committee

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

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

Organisation and participants

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

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

The Chairman and members of the Management Board and the General Secretary are regularly invited to participate in meetings of the Board of Directors. The CEO, CFO, Head of Financial Services, the internal auditor, the auditor in charge at the external

auditing firm KPMG AG and the General Secretary are invited to attend meetings of the Audit & Finance Committee. The CEO, Head of Human Resources and the General Secretary are invited to attend meetings of the Nomination & Compensation Committee, and the CEO, Head of Public Affairs, COO and the General Secretary are invited to attend meetings of the Public Affairs Committee.

Competency regulations

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

Information and controlling tools

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 and project information. Comprehensive financial and business reports are also prepared on a quarterly basis, and a risk and compliance report is prepared twice a year. The Board of Directors is kept informed about anticipated developments by means of rolling long-term planning.

In close collaboration with the Audit & Finance Committee, group auditors KPMG AG worked with Internal Audit in examining the internal control system. In the reporting period, for example, reviews of the parking booking system, the allocation of building cleaning contracts to third-party firms and the progress of the sound insulation programme were carried out within the internal auditing process, which is designed to be an independent tool to help the Board of Directors and Audit & Finance Committee perform their duty of overall supervision. Follow-up activities to previous audits also took place. Internal Audit reports directly to the Chairman of the Audit & Finance Committee.

MANAGEMENT BOARD

Members

Stephan Widrig

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

Stefan Conrad

- Chief Operations Officer (COO).
- Swiss citizen, born in 1954. Qualified airline and military pilot; captain and instructor with Swissair AG / Swiss International Air Lines (1990 – 2010).
- Joined Flughafen Zürich AG in May 2010.
- Other activities and commitments: Member of the Board of Directors at AMG, Astana (Kazakhstan).

Stefan Gross

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

Daniel Scheifele

- Chief Real Estate Officer (CREO).
- Swiss citizen, born in 1962. PhD in civil engineering from the Federal Institute of Technology (ETH) and completed Senior Executive Programme in Advanced Management at London Business School; project management and planning / realisation of large infrastructure and real estate projects at Rosenthaler & Partner and at Karl Steiner AG; thereafter various management roles in project development and general contracting at Batigroup, Losinger, Steiner AG and Strabag AG.
- Joined Flughafen Zürich AG in April 2016.
- Other activities and commitments: none.

Daniel Schmucki

- Chief Financial Officer (CFO).
- Swiss citizen, born in 1968. Swiss Certified Expert for Accounting / Controlling, various finance and controlling positions at Weidmann International (1990 to 1994) and in the Bosch Group (1994 to 1999).
- Joined Flughafen Zürich AG (former Flughafen-Immobilien-Gesellschaft, FIG) in 1999 as head of Controlling; also responsible for Investor Relations & Treasury since 2003; assumed his position on the Management Board in April 2008.
- Other activities and commitments: Member of the Board of Directors of Bangalore International Airport Ltd. (BIAL), Bengaluru, India.

In the reporting period there were no management agreements associated with the assignment of management duties to third parties.

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

nies, and to an additional five mandates at other legal entities entered in the Commercial Register.

REMUNERATION, PARTICIPATION AND LOANS

The rules relating to the remuneration of the Board of Directors and the Management Board, which are based on Article 25ff of the Articles of Incorporation, and the remuneration paid in the reporting period are shown in the separate Remuneration Report (see pages 47 to 50).

AUDITORS

The audit mandate is awarded each year by the General Meeting of Shareholders. The current auditors assumed their mandate in 1992 (for the former Flughafen Immobilien Gesellschaft, FIG) at which time the old company law was still in effect. The current auditor in charge, Martin Schaad at KPMG AG, has been responsible for this mandate since 2014. It is limited by law to a period of seven years.

The fee charged by the auditors for the reporting period amounted to CHF 257,000 (2015: CHF 312,500). For additional services outside the audit mandate (audit-related services) the auditors charged a total of CHF 71,200 (2015: CHF 57,100). The following amounts were charged for non-audit-related services: tax consultancy CHF 204,600 (2015: CHF 243,200); IT consultancy CHF 0 (2015: CHF 21,800); other consulting services CHF 13,000 (2015: CHF 0).

The Audit & Finance Committee is responsible for monitoring and supervising the external audit. It deals with the formulation and approval of the integrated audit planning, which includes the plans for both the external and the internal audits. Moreover, the Audit & Finance Committee evaluates and analyses the respective audit reports and approves the fees for the external audit. The auditors provide a written report on the findings of the agreed audit procedures for the Interim Report and the results of the interim audit and the end-of-year audit. The auditor in charge at the auditing firm attends the meetings of the Audit & Finance Committee.

INFORMATION POLICY

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

For further information please see Investor Relations at www.zurich-airport.com/investorrelations.

REMUNERATION REPORT

The following Remuneration Report describes the principles of the remuneration policy at Flughafen Zürich AG as well as the associated decision-making powers and the components of remuneration. The foundation for these disclosures is the Ordinance against Excessive Compensation in Stock Exchange Listed Companies.

I. REMUNERATION POLICY AT FLUGHAFEN ZÜRICH AG

1. Foundations and principles

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

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

2. Components and methods of determination

→ for the remuneration of members of the Board of Directors

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

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

→ for the remuneration of members of the Management Board

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

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

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

3. Approval by the General Meeting of Shareholders

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

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

As the amounts actually to be paid out depend in part on a consolidated result not yet known when these amounts are ap-

proved, this prospective method of approval requires that the theoretical maximum amounts be used by the General Meeting of Shareholders as a basis for their approval decisions. The remuneration actually paid out for a specific reporting period will be stated the following year in the Remuneration Report, which will be presented to the General Meeting of Shareholders for consultation.

II. REMUNERATION PAID

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

1. REMUNERATION OF THE BOARD OF DIRECTORS

a) for the reporting period (2016):

| (in CHF) | | Remuneration for members of the Board of Directors | Remuneration for attending board meetings | Remuneration for committee membership | Remuneration for committee meetings | Social security contributions | Total |
|----------------------|---|--|---|---------------------------------------|-------------------------------------|-------------------------------|------------------|
| Recipient | Function | | | | | | |
| Andreas Schmid | Chairman | 225,000 | 25,000 | 15,000 | 40,000 | 41,827 | 346,827 |
| Vincent Albers | Member | 85,000 | 25,000 | 5,000 | 22,500 | 19,877 | 157,377 |
| Guglielmo L. Brentel | Member | 97,287 | 25,753 | 5,723 | 20,030 | 0 | 148,793 |
| Corine Mauch | Member | 20,000 | 17,250 | 0 | 0 | 5,385 | 42,635 |
| Eveline Saupper | Vice Chairwoman | 100,000 | 25,000 | 10,000 | 15,000 | 21,534 | 171,534 |
| Kaspar Schiller | Member; Chairman of the Nomination & Compensation Committee | 93,807 | 22,072 | 11,036 | 11,036 | 0 | 137,951 |
| Ulrik Svensson | Member; Chairman of the Audit & Finance Committee | 85,000 | 25,000 | 10,000 | 7,500 | 18,431 | 145,931 |
| Carmen Walker Späh | Member; Chairwoman of the Public Affairs Committee | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | | 706,094 | 165,075 | 56,759 | 116,066 | 107,054 | 1,151,048 |

The following lump-sum payments were made:

| | |
|--|------------------|
| to the Department for Economic Affairs of the Canton of Zurich (as part of the remuneration due to Carmen Walker Späh) | 132,500 |
| to City of Zurich (as part of the remuneration due to Corine Mauch) | 77,750 |
| Total | 1,361,298 |
| Total amount approved by the General Meeting of Shareholders | 1,600,000 |

In accordance with the approval decision of the General Meeting of Shareholders on 28 April 2015, the rates for compensation for the Board of Directors were adjusted in the reporting period for the first time in eight years.

b) for the comparative period (2015):

| (in CHF) | | Remuneration for members of the Board of Directors | Remuneration for attending board meetings | Remuneration for committee membership | Remuneration for committee meetings | Social security contributions | Total |
|----------------------------------|---|--|---|---------------------------------------|-------------------------------------|-------------------------------|----------------|
| Recipient | Function | | | | | | |
| Andreas Schmid | Chairman | 150,000 | 20,000 | 15,000 | 40,000 | 31,197 | 256,197 |
| Vincent Albers ²⁾ | Member | 30,000 | 15,000 | 3,333 | 17,500 | 9,555 | 75,388 |
| Guglielmo L. Brentel | Member | 51,531 | 25,765 | 5,726 | 28,628 | 0 | 111,650 |
| Lukas Briner ¹⁾ | Vice Chairman | 20,000 | 7,500 | 3,333 | 7,500 | 3,936 | 42,269 |
| Corine Mauch | Member | 20,000 | 10,875 | 0 | 0 | 4,481 | 35,356 |
| Eveline Saupper ²⁾ | Vice Chairwoman | 40,000 | 12,500 | 6,667 | 7,500 | 9,676 | 76,343 |
| Kaspar Schiller | Member; Chairman of the Nomination & Compensation Committee | 49,372 | 24,686 | 10,972 | 10,972 | 0 | 96,002 |
| Ernst Stocker ³⁾ | Member; Chairman of the Public Affairs Committee | 0 | 5,500 | 0 | 1,000 | 943 | 7,443 |
| Ulrik Svensson | Member; Chairman of the Audit & Finance Committee | 45,000 | 22,500 | 10,000 | 7,500 | 12,336 | 97,336 |
| Carmen Walker Späh ⁴⁾ | Member; Chairwoman of the Public Affairs Committee | 0 | 0 | 0 | 0 | 0 | 0 |
| Martin Wetter ¹⁾ | Member | 15,000 | 7,500 | 1,667 | 5,000 | 2,834 | 32,001 |
| Total | | 420,903 | 151,826 | 56,698 | 125,600 | 74,958 | 829,985 |

The following lump-sum payments were made:

| | |
|--|----------------|
| to the Department for Economic Affairs of the Canton of Zurich (as part of the remuneration due to Ernst Stocker and Carmen Walker Späh) | 88,500 |
| to City of Zurich (as part of the remuneration due to Corine Mauch) | 41,625 |
| Total | 960,110 |
| Total amount approved by the General Meeting of Shareholders | 1,200,000 |

1) Until 28 April 2015.

2) Since 28 April 2015.

3) Until 30 June 2015.

4) Since 1 July 2015.

No severance payments or other long-term remuneration payments were made in 2015 or 2016.

2. REMUNERATION OF THE MANAGEMENT BOARD

a) for the reporting period (2016):

| (in CHF) | Salary | Bonus (cash) ¹⁾ | Bonus (shares) ¹⁾ | Pension and social insurance expenses ²⁾ | Miscellaneous | Total CHF | Number of shares ³⁾ | Share price (CHF) ³⁾ |
|--|------------------|----------------------------|------------------------------|---|----------------|------------------|--------------------------------|---------------------------------|
| Recipient | | | | | | | | |
| Stephan Widrig (CEO) | 400,000 | 360,167 | 179,833 | 182,277 | 26,994 | 1,149,271 | 952 | 188.90 |
| Other members of the Management Board | 1,258,541 | 575,399 | 243,492 | 496,182 | 113,660 | 2,687,274 | 1,289 | 188.90 |
| Total | 1,658,541 | 935,566 | 423,325 | 678,459 | 140,654 | 3,836,545 | 2,241 | |
| Total amount approved by the General Meeting of Shareholders | | | | | | 3,500,000 | | |
| Maximum available additional sum ⁴⁾ | | | | | | 2,100,000 | | |
| Amount used of additional sum ⁵⁾ | | | | | | 336,545 | | |

1) Allocation is rounded to whole shares, and any remainder is added to the cash component. This may result in minor differences between the cash and the share components, but the overall bonus remains unchanged.

2) Pension and social insurance expenses include contributions to supplementary retirement insurance, as well as employer's contributions to social security and staff benefit schemes.

3) The bonus shares indicated above are based on the share price as at the end of the year. The definitive number of shares is calculated on the basis of the share price at the payment date.

4) In accordance with Article 26 para. 2 of the Articles of Incorporation, an additional sum of 30 % of the approved aggregate amount is available as necessary for the remuneration of any subsequently nominated members of the Management Board (per additional member).

5) For the unsecured remuneration portions of the approved total amount for the new Management Board members Stefan Gross (CCO) and Daniel Scheifele (CREO) (CHF 168,272.50 each.)

Remuneration of members of the Management Board was effected as shown in the above table. The bonus (cash and share components) is accrued for the period under review and paid out in the spring of the following year. The aggregate variable remuneration (cash and share components of the bonus) amounts to between 50 % and 135 % of the fixed salary for individual members of the Management Board. Bonus shares are blocked for a period of four years (see also Financial report, Consolidated financial statements according to IFRS, Notes to the consolidated financial statements, note 3, Personnel expenses). No long-term remuneration or severance payments were made in 2016. Due to a reorganisation of the management of the company, during the reporting period the number of members of the Management Board

was increased from four to five persons. This change was associated from a personnel point of view with the nomination of two additional members of the Management Board at a point in time after the maximum remuneration for this year was approved by the General Meeting of Shareholders, and functionally with an overlap of several months in the employment contracts of the two new members and the one outgoing member. The additional financial requirements for the remuneration of the Management Board that this entailed could not be completely covered by the aggregate amount approved by the General Meeting of Shareholders, thus use was made of the additional sum envisioned in the Articles of Association for such cases.

b) for the comparative period (2015):

| (in CHF) | Salary | Bonus (cash) ¹⁾ | Bonus (shares) ¹⁾ | Pension and social insurance expenses ²⁾ | Miscellaneous | Total CHF | Number of shares | Share price (CHF) |
|--|------------------|----------------------------|------------------------------|---|----------------|------------------|------------------|-------------------|
| Recipient | | | | | | | | |
| Stephan Widrig (CEO) | 350,000 | 254,659 | 126,841 | 154,148 | 26,994 | 912,642 | 143 | 887.00 |
| Other members of the Management Board | 1,366,667 | 644,846 | 162,321 | 757,086 | 91,461 | 3,022,381 | 183 | 887.00 |
| Total | 1,716,667 | 899,505 | 289,162 | 911,234 | 118,455 | 3,935,023 | 326 | |
| Total amount approved by the General Meeting of Shareholders | | | | | | 3,900,000 | | |
| Maximum available additional sum ³⁾ | | | | | | 1,170,000 | | |
| Amount used of additional sum ⁴⁾ | | | | | | 35,023 | | |

1) Allocation is rounded to whole shares, and any remainder is added to the cash component. This may result in minor differences between the cash and the share components, but the overall bonus remains unchanged.

2) Pension and social insurance expenses include contributions to supplementary retirement insurance, as well as employer's contributions to social security and staff benefit schemes.

3) In accordance with Article 26 para. 2 of the Articles of Incorporation, an additional sum of 30 % of the approved aggregate amount is available as necessary for the remuneration of any subsequently nominated members of the Management Board (per additional member).

4) For the unsecured remuneration portion of the approved total amount for the new Management Board member Patrick Candrian (CCO).

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

No loans or advances were granted to members of the Board of Directors or the Management Board in 2015 or 2016, nor was non-market-based remuneration paid to parties related to members of the Board of Directors or the Management Board during these years.



Statutory Auditor's Report

To the General Meeting of Flughafen Zürich AG, Kloten

We have audited the accompanying remuneration report of Flughafen Zürich AG for the year ended 31 December 2016. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in section "II. Remuneration paid" on pages 48 to 50 of the remuneration report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the remuneration report for the year ended 31 December 2016 of Flughafen Zürich AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Martin Schaad
Licensed Audit Expert
Auditor in Charge

Samuel Seiler
Licensed Audit Expert

Zurich, 2 March 2017

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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RISK MANAGEMENT

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

RISK MANAGEMENT AS A MANAGEMENT AND OPERATING TOOL

The Flughafen Zürich AG risk management system is the management and operating 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
- Auditing and review of the risk management system

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

- **Board of Directors, Management Board and Chief Risk Officer**

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

- **Risk Management & Insurance department**

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

- **Line units (divisions and departments)**

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

- **Specialised units**

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

In reporting on risks, Flughafen Zürich AG describes in detail the most important business risks identified and assesses risks for their probability of occurrence as well as for their potential operational and economic impact. Responsibilities and a plan of action with specific target dates are also defined and outline how the respective risk can be reduced. The risk management organisation continually monitors the implementation of the defined measures. The risk report is presented to the Management Board and the Board of Directors twice a year.

COMPLIANCE MANAGEMENT

Flughafen Zürich AG operates a compliance management system as another important component of its comprehensive risk management strategy. The aim of compliance management is to systematically identify, understand and comply with applicable legal regulations as well as internal corporate guidelines and ethical principles.

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

broadly based Compliance Steering Committee headed by the Chief Risk Officer monitors consistent and uniform implementation of compliance management procedures.

Since 2009, the risk management organisation has produced a comprehensive biannual compliance report at the request of the Chief Risk Officer based on information provided by the process owners. This report covers all areas and is submitted to the Management Board and the Board of Directors.

CURRENT RISK SITUATION

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

1. Legal uncertainties

Various domestic and foreign restrictions could mean that Flughafen Zürich AG will not be able to fully utilise its infrastructures or will need to cover additional capital expenditures and costs. These restrictions include the following:

1.1 Regulation governing the use of south German airspace

The use of south German airspace is presently regulated by an implementing regulation (DVO) issued unilaterally by Germany. On 4 September 2012, Swiss Federal Councillor Doris Leuthard and the then German Transport Minister Peter Ramsauer signed the new aviation treaty. Under the treaty, Germany would permit northern approaches to the airport over its territory in the mornings from 6:30 a.m., and thus half an hour earlier than before. It would also accept the principle of a satellite-guided curved northern approach route. In return, Switzerland is willing, as of 2020, to direct arriving flights to Zurich Airport via another route from 6 p.m. onward instead of using the northern approach. So that this shift is possible without adverse effects on capacity, runways 28 and 32 must be extended, and the approach and take-off routes streamlined. If this is not possible, or if implementation of these measures is delayed, either the airport will not be able to handle the forecast demand during the new curfew periods, or delays will be a regular occurrence. The treaty must be ratified by both countries. The two chambers of Switzerland's Parliament have already approved the treaty, but in Germany ratification was halted, and no date has yet been set for ratification in Germany. Germany could also change the implementing regulation (DVO) unilaterally. In the absence of multiannual transition periods for adjustments to the airport's infrastructure, this would lead to additional capacity restrictions for Zurich Airport and thus significantly hinder the airport's business development.

1.2 The Sectoral Aviation Infrastructure Plan (SAIP)

The SAIP forms the basis for spatial planning at Zurich Airport. As yet, the territory affected by aircraft noise has not been specified. By deciding not to pursue the option of securing land for a parallel runway, the Swiss Federal Department of Environment, Transport, Energy and Communications (DETEC) abandoned the only alternative which, according to current projections, would have been able to meet long-term demand. In September 2016, the federal government began the consultation for noise specifications in the SAIP. There is a possibility that changes to the SAIP could lead to changes in capacity, which would have an effect on future revenues.

1.3 Investments to reduce complexity

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

1.4 Annual noise exposure reporting

In 2015, the Federal Office of Civil Aviation FOCA specified the noise levels permitted for Zurich Airport. Under the Federal Noise Abatement Ordinance, Flughafen Zürich AG is obliged to report annually on aircraft noise emissions. Reasons must be given for any noise exposure above that permitted and measures for avoiding such infringements in future must be stated. If it is anticipated that noise emissions will greatly exceed the permitted levels in the long term, the relevant departments of the Federal Administration will take the necessary measures. The permitted noise exposure levels are exceeded by a considerable degree. Flughafen Zürich AG has identified measures to improve the situation for night-time delays and is seeking approval for changes to the permitted noise levels (amendment of the 2014 operating regulations). In addition, the planned amendment of SAIP2 envisages an extension of the night-time noise curve. The restriction of flight operations during the night cannot be ruled out, however, if permitted noise levels are exceeded.

1.5 Zurich Aircraft Noise Index (ZFI)

In 2007, the Zurich Cantonal Parliament's counter-proposal to a cantonal referendum was accepted. The counter-proposal comprises the following two elements:

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

In recent years, the guideline figure of 47,000 persons was exceeded every year. This is largely due to the strong population growth in the region around the airport compared with the year 2000. The package consists of a set of measures for flight operations and another set for land-use planning/quality of life. These measures do not have any negative implications for flight operations. However, it is conceivable that the Canton of Zurich, through its representatives on the Board of Directors or the Swiss

Federal government, could demand the implementation of certain measures that could have a negative impact on the airport's development.

1.6 Discontinuation of Bilateral Agreements with the EU

Implementation of the Mass Immigration Initiative and the announced initiative aimed at terminating the bilateral agreements with the EU are generating uncertainty over the continued existence of the Agreement of the Free Movement of Persons and thus the bilateral agreements as a whole. Terminating the agreements could, in a worst-case scenario, result in Switzerland being excluded from the Schengen system. This would result in extraordinary write-offs and additional costs for the company in connection with the adjustment of the affected infrastructures and systems. If visa procedures were to become more complex, a drop in demand at Zurich Airport would also have to be expected.

2. Decline in demand

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

3. Increasing safety and security requirements

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

4. Interruptions to business due to operational events or natural hazards

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

5. Hub carrier

Like any other hub airport, Flughafen Zürich AG depends to a considerable extent on the operational and financial development of its hub carrier SWISS (and the latter's parent, Lufthansa). The airline SWISS is the main customer of Flughafen Zürich AG. During the year under review, SWISS accounted for around 53 % of both the passenger and around 54 % of traffic volume at Zurich Airport. The airline plays a major role within the Lufthansa Group as far as profits are concerned, so the risk of the hub carrier failing

for economic reasons can be considered minor at present. Capacity reductions can never be ruled out, however.

6. Noise-related costs

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

6.1 Reporting of noise-related costs in the financial statements

6.1.1 Formal expropriations

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

Since no further factors that would have changed the estimates made in 2011 have emerged with respect to formal expropriations from new court rulings in the final instance since the Swiss Federal Supreme Court decision of 9 December 2011, the estimated cost of formal expropriations at the end of financial year 2015 totalled CHF 406.5 million, CHF 48.6 million of which had already been paid by that date.

In the first half of 2016, the Swiss Federal Supreme Court handed down two rulings in test cases regarding claims for compensation due to eastern and southern approach routes. By answering important questions relating to how pending claims for compensation will be dealt with in a court of final instance, these rulings increased legal certainty significantly. These Swiss Federal Supreme Court rulings enabled Flughafen Zürich AG to undertake a reappraisal of the outstanding cost of compensation for formal expropriations. Based on the recalculation, the provision for formal expropriations was reduced by CHF 21.5 million as at

30 June 2016. At the same time, the intangible asset from the right of formal expropriation was reduced by the same amount.

As at the reporting date, the estimated costs for formal expropriations amounted to CHF 385.0 million, of which CHF 59.3 million had already been paid out at that date. The outstanding costs of CHF 325.7 million (nominal amount) are stated at their present value of CHF 320.2 million in the 2016 consolidated financial statements.

6.1.2 Sound insulation and resident protection measures

With respect to sound insulation and resident protection measures, the Federal Office of Civil Aviation (FOCA) required Flughafen Zürich AG, in connection with its 2014 operating regulations application, to submit an extended sound insulation programme by the end of June 2015. Based on the permitted noise exposure levels specified by FOCA, and taking into account the still pending changes to the 2014 operating regulations, the company duly submitted its 2015 sound insulation programme by this deadline. At its meeting on 22 June 2015, the Board of Directors approved a further CHF 100.0 million of measures in this context in addition to the CHF 240.0 million previously estimated for sound insulation and resident protection. The present value of these additional costs was immediately recognised as a provision, resulting in an amount of CHF 97.1 million (before taxes) being charged to profit or loss in the consolidated financial statements in financial year 2015.

As at the reporting date, the estimated costs for sound insulation and resident protection measures remained unchanged at CHF 340.0 million, of which CHF 219.2 million had already been paid out at that date. The outstanding costs of CHF 120.8 million (nominal amount) are stated at their present value of CHF 119.7 million in the consolidated financial statements for the period ended 31 December 2016.

More detailed information on the treatment and reporting of noise-related matters may be found in the following sections as well as in the consolidated financial statements (from page 58) and in the financial statements (from page 120) of this Annual Report.

6.2 Risks for Flughafen Zürich AG associated with aircraft noise

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

Flughafen Zürich AG has received a total of around 20,000 noise-related claims for compensation, of which nearly 10,000 were still pending at the end of 2016. Approximately 1,350 cases are currently being examined by the Swiss Federal Assessments Commission.

Depending on future and final-instance legal judgments, especially with respect to the southern approaches, in particular noise-related liabilities may in future be subject to substantial adjustments, which would also require adjustments to the noise-related costs recognised as assets and liabilities in the balance

sheet. At the present time, it is not possible to reliably estimate the total costs to capitalise as an intangible asset from the right of formal expropriation, the resulting amortisation or the corresponding provision.

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

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

6.3 Treatment of noise-related matters in the consolidated financial statements according to the International Financial Reporting Standards (IFRS)

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

6.3.1 Formal expropriations

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

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

- Revenue from noise charges will be recognised in the income statement.
- Payments for formal expropriations and for sound insulation and resident protection measures will be charged against the corresponding provisions.
- The intangible asset from the right of formal expropriation will be amortised using the straight-line method over the remaining duration of the operating licence (i.e. until May 2051).

- The unwinding of the discount on the provisions for formal expropriations plus sound insulation and resident protection measures will be recognised in the income statement.
- As before, noise-related operating costs will be borne in full by Flughafen Zürich AG and charged to the Airport of Zurich Noise Fund.

6.3.2 Costs for sound insulation and resident protection measures

The costs for sound insulation and resident protection measures for which Flughafen Zürich AG has entered into a constructive obligation are recognised as a provision as soon as they can be reliably estimated.

6.4 Treatment of noise-related matters in the financial statements under the Swiss Code of Obligations (CO)

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

73 columns

VISUAL IDENTITY

The renovated, upgraded curbside lanes from the departure and arrival level are reopening after a construction period of around three years. With its extraordinary overhang, the roof catches the eye straight away. The structure is supported by 73 steel columns.



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO IFRS

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CONSOLIDATED INCOME STATEMENT

| (CHF 1,000) | Notes | 2016 | 2015 |
|--|-------|------------------|----------------|
| Aviation revenue | (2) | 620,402 | 597,389 |
| Non-aviation revenue | (2) | 392,402 | 391,584 |
| Total revenue | | 1,012,804 | 988,973 |
| Personnel expenses | (3) | -196,633 | -167,845 |
| Police and security | | -118,277 | -118,615 |
| Energy and waste | | -18,450 | -21,872 |
| Maintenance and material | | -35,174 | -40,789 |
| Other operating expenses | (4) | -50,966 | -51,205 |
| Sales, marketing and administration | | -34,836 | -35,013 |
| Capitalised expenditure and other income | (5) | 24,348 | 47,296 |
| Other expenses | (5) | -4,012 | -98,114 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | | 578,804 | 502,816 |
| Depreciation and amortisation | | -241,454 | -228,172 |
| Earnings before interest and tax (EBIT) | | 337,350 | 274,644 |
| Finance costs | (6) | -22,253 | -41,008 |
| Finance income | (6) | 4,824 | 3,603 |
| Share of profit or loss of associates | (12) | -5,326 | -3,939 |
| Profit before tax | | 314,595 | 233,300 |
| Income tax expense | (7) | -66,577 | -53,493 |
| Profit | | 248,018 | 179,807 |
| Profit attributable to shareholders of Flughafen Zürich AG | | 247,728 | 179,643 |
| Profit attributable to non-controlling interests | | 290 | 164 |
| Basic earnings per share (in CHF) ¹⁾ | (17) | 8.07 | 5.85 |
| Diluted earnings per share (in CHF) ¹⁾ | (17) | 8.07 | 5.85 |

1) A 5-for-1 share split was implemented on 6 May 2016 (see note 17, Equity and reserves). For the purpose of comparison, the previous year's figures have been adjusted accordingly.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| (CHF 1,000) | Notes | 2016 | 2015 |
|---|-------|----------------|----------------|
| Profit | | 248,018 | 179,807 |
| Other comprehensive income | | | |
| Cross-currency interest rate swap, net of income tax | | | |
| Adjustments to fair value | (18) | 0 | -393 |
| Transfer to income statement | (18) | 0 | 497 |
| Available-for-sale securities | | | |
| Adjustments to fair value | | 1,532 | 611 |
| Transfer to income statement | | 0 | 41 |
| Foreign exchange differences | | 2,168 | -6,270 |
| Items that are or may be reclassified subsequently to profit or loss | | 3,700 | -5,514 |
| Remeasurement of defined benefit liability, net of income tax | (22) | -13,868 | -19,974 |
| Items that will never be reclassified to profit or loss | | -13,868 | -19,974 |
| Other comprehensive income, net of income tax | | -10,168 | -25,488 |
| Total comprehensive income | | 237,850 | 154,319 |
| Comprehensive income attributable to shareholders of Flughafen Zürich AG | | 237,563 | 154,171 |
| Comprehensive income attributable to non-controlling interests | | 287 | 148 |

CONSOLIDATED BALANCE SHEET

| (CHF 1,000) | Notes | 31.12.2016 | 31.12.2015 |
|---|-------|------------------|------------------|
| Assets | | | |
| Property, plant and equipment | (8) | 2,756,113 | 2,829,983 |
| Investment property | (9) | 120,136 | 73,574 |
| Intangible asset from right of formal expropriation | (10) | 135,623 | 161,356 |
| Other intangible assets | (10) | 10,406 | 6,865 |
| Investments in associates | (12) | 14,771 | 15,378 |
| Non-current financial assets of Airport of Zurich Noise Fund | (11) | 308,594 | 257,373 |
| Non-current fixed-term-deposits | (15) | 0 | 50,000 |
| Other financial assets | | 3,497 | 3,279 |
| Non-current assets | | 3,349,140 | 3,397,808 |
| Inventories | | 11,013 | 10,041 |
| Current financial assets of Airport of Zurich Noise Fund | (11) | 47,136 | 69,964 |
| Trade receivables | (13) | 110,865 | 99,153 |
| Other receivables and prepaid expenses | (14) | 40,070 | 43,625 |
| Current fixed-term deposits | (15) | 50,000 | 50,000 |
| Cash and cash equivalents | (15) | 447,778 | 371,970 |
| Assets held for sale | (16) | 9,362 | 0 |
| Current assets | | 716,224 | 644,753 |
| Total assets | | 4,065,364 | 4,042,561 |
| Equity and liabilities | | | |
| Share capital | (17) | 307,019 | 307,019 |
| Treasury shares | | -856 | -642 |
| Capital reserves | | 494,408 | 592,090 |
| Hedging reserve, net | | 0 | 0 |
| Fair value reserve | | 4,604 | 3,072 |
| Translation reserve | | -8,383 | -10,554 |
| Other retained earnings | | 1,461,696 | 1,319,932 |
| Equity attributable to shareholders of Flughafen Zürich AG | | 2,258,488 | 2,210,917 |
| Equity attributable to non-controlling interests | | 1,661 | 1,520 |
| Total equity | | 2,260,149 | 2,212,437 |
| Debentures and non-current loans | (18) | 699,274 | 948,341 |
| Non-current lease liabilities | (18) | 4,762 | 6,454 |
| Non-current provision for formal expropriations plus sound insulation and resident protection | (19) | 405,926 | 450,780 |
| Deferred tax liabilities | (21) | 49,409 | 58,238 |
| Employee benefit obligations | (22) | 193,796 | 168,960 |
| Non-current liabilities | | 1,353,167 | 1,632,773 |
| Trade payables | | 32,349 | 41,081 |
| Current financial liabilities | (18) | 251,492 | 19,195 |
| Other current liabilities, accruals and deferrals | (23) | 104,136 | 68,851 |
| Current provision for formal expropriations plus sound insulation and resident protection | (19) | 33,948 | 34,940 |
| Current tax liabilities | | 30,123 | 33,284 |
| Current liabilities | | 452,048 | 197,351 |
| Total liabilities | | 1,805,215 | 1,830,124 |
| Total equity and liabilities | | 4,065,364 | 4,042,561 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| (CHF 1,000) | Share capital | Treasury shares | Capital reserves | Hedging reserve, net | Fair value reserve | Translation reserve | Other retained earnings | Equity attributable to shareholders of Flughafen Zürich AG | Equity attributable to non-controlling interests | Total equity |
|--|----------------|-----------------|------------------|----------------------|--------------------|---------------------|-------------------------|--|--|------------------|
| Balance as at 1 January 2016 | 307,019 | -642 | 592,090 | 0 | 3,072 | -10,554 | 1,319,932 | 2,210,917 | 1,520 | 2,212,437 |
| Profit | | | | | | | 247,728 | 247,728 | 290 | 248,018 |
| Available-for-sale securities | | | | | | | | | | |
| Adjustments to fair value | | | | | 1,532 | | | 1,532 | | 1,532 |
| Transfer to income statement | | | | | | | | 0 | | 0 |
| Foreign exchange differences | | | | | | 2,171 | | 2,171 | -3 | 2,168 |
| Remeasurement of defined benefit liability, net of income tax | | | | | | | -13,868 | -13,868 | | -13,868 |
| Other comprehensive income, net of income tax | | | | | 1,532 | 2,171 | -13,868 | -10,165 | -3 | -10,168 |
| Total comprehensive income | 0 | 0 | 0 | 0 | 1,532 | 2,171 | 233,860 | 237,563 | 287 | 237,850 |
| Ordinary dividend for the 2015 financial year | | | | | | | -92,096 | -92,096 | -146 | -92,242 |
| Additional distribution from the capital contribution reserves for the 2015 financial year | | | -98,236 | | | | | -98,236 | | -98,236 |
| Purchase of treasury shares | | -910 | | | | | | -910 | | -910 |
| Share-based payments | | 696 | 554 | | | | | 1,250 | | 1,250 |
| Balance as at 31 December 2016 | 307,019 | -856 | 494,408 | 0 | 4,604 | -8,383 | 1,461,696 | 2,258,488 | 1,661 | 2,260,149 |
| Balance as at 1 January 2015 | 307,019 | -1,098 | 591,671 | -104 | 2,420 | -4,300 | 1,243,144 | 2,138,752 | 1,770 | 2,140,522 |
| Profit | | | | | | | 179,643 | 179,643 | 164 | 179,807 |
| Cross-currency interest rate swap, net of income tax | | | | | | | | | | |
| Adjustments to fair value | | | | -393 | | | | -393 | | -393 |
| Transfer to income statement | | | | 497 | | | | 497 | | 497 |
| Available-for-sale securities | | | | | | | | | | |
| Adjustments to fair value | | | | | 611 | | | 611 | | 611 |
| Transfer to income statement | | | | | 41 | | | 41 | | 41 |
| Foreign exchange differences | | | | | | -6,254 | | -6,254 | -16 | -6,270 |
| Remeasurement of defined benefit liability, net of income tax | | | | | | | -19,974 | -19,974 | | -19,974 |
| Other comprehensive income, net of income tax | | | | 104 | 652 | -6,254 | -19,974 | -25,472 | -16 | -25,488 |
| Total comprehensive income | 0 | 0 | 0 | 104 | 652 | -6,254 | 159,669 | 154,171 | 148 | 154,319 |
| Dividends for the 2014 financial year | | | | | | | -82,881 | -82,881 | -398 | -83,279 |
| Purchase of treasury shares | | -236 | | | | | | -236 | | -236 |
| Share-based payments | | 692 | 419 | | | | | 1,111 | | 1,111 |
| Balance as at 31 December 2015 | 307,019 | -642 | 592,090 | 0 | 3,072 | -10,554 | 1,319,932 | 2,210,917 | 1,520 | 2,212,437 |

CONSOLIDATED CASH FLOW STATEMENT

| (CHF 1,000) | Notes | 2016 | 2015 |
|--|-------|-----------------|-----------------|
| Profit | | 248,018 | 179,807 |
| Finance result | (6) | 17,429 | 37,405 |
| Share of profit or loss of associates | | 5,326 | 3,939 |
| Income tax expense | (7) | 66,577 | 53,493 |
| Depreciation / amortisation of | | | |
| Buildings and engineering structures | (8) | 208,004 | 192,023 |
| Movables | (8) | 14,783 | 16,509 |
| Leased assets | (8) | 11,189 | 11,188 |
| Intangible asset from right of formal expropriation | (10) | 4,248 | 4,556 |
| Other intangible assets | (10) | 4,246 | 4,706 |
| Recognition of government subsidies and grants on buildings and engineering structures in the income statement | | | |
| Buildings and engineering structures | (8) | -1,016 | -810 |
| Gains (-) / losses (+) on disposal of property, plant and equipment (net) | | -4,754 | -33,881 |
| Share-based payments | | 1,250 | 1,111 |
| Increase (-) / decrease (+) in inventories, trade receivables and other receivables and prepaid expenses | | -9,458 | -759 |
| Increase (+) / decrease (-) in current liabilities, excluding current financial liabilities | | -2,306 | -2,226 |
| Increase (+) / decrease (-) in employee benefit obligations | | 6,152 | -14,420 |
| Use of provision for formal expropriations plus sound insulation and resident protection | (19) | -23,309 | 70,334 |
| Income tax paid | | -74,510 | -66,798 |
| Cash flow from operating activities | | 471,869 | 456,177 |
| of which related to aircraft noise (Airport of Zurich Noise Fund) | | -12,390 | -16,360 |
| Income from noise charges | (20) | 11,601 | 10,865 |
| Expenses for formal expropriations plus sound insulation and resident protection | | -23,991 | -27,225 |
| Investments in property, plant and equipment (projects in progress) | | -135,275 | -172,455 |
| Investments in investment property (incl. cash advances) | | -51,911 | -52,017 |
| Proceeds from disposal of property, plant and equipment | | 7,531 | 67,876 |
| Investments in associates | | -12,835 | -20 |
| Investments in financial assets of Airport of Zurich Noise Fund | | -97,346 | -116,020 |
| Investments in fixed-term deposits of Airport of Zurich Noise Fund due > 90 days | (15) | 0 | -100,000 |
| Repayment of fixed-term deposits of Airport Zurich Noise Fund due > 90 days | (15) | 50,000 | 195,000 |
| Repayment of current financial assets of Airport of Zurich Noise Fund | | 69,200 | 53,625 |
| Interest received | | 3,154 | 4,487 |
| Cash flow from investing activities | | -167,482 | -119,524 |
| of which related to aircraft noise (Airport of Zurich Noise Fund) | | 21,854 | 32,605 |
| Investments in financial assets and fixed-term deposits of Airport of Zurich Noise Fund | | -97,346 | -216,020 |
| Repayment of current financial assets of Airport of Zurich Noise Fund | | 119,200 | 248,625 |
| Repayment of liabilities to banks arising from US private placement | (18) | 0 | -73,150 |
| Repayment of lease liabilities | (18) | -19,196 | -13,235 |
| Payment of dividend for the 2015 / 2014 financial years | (17) | -190,473 | -83,279 |
| Purchase of treasury shares | | -910 | -236 |
| Interest paid | | -18,204 | -20,437 |
| Cash flow from financing activities | | -228,783 | -190,337 |
| Increase (+) / decrease (-) in cash and cash equivalents | | 75,604 | 146,316 |
| Balance at beginning of financial year | (15) | 371,970 | 226,126 |
| Effect of foreign exchange differences on cash and cash equivalents held | | 204 | -472 |
| Balance at end of financial year | (15) | 447,778 | 371,970 |
| of which included in Airport of Zurich Noise Fund | (15) | 58,605 | 49,149 |

I ACCOUNTING POLICIES

GENERAL REMARKS

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

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law. They have been prepared under the historical cost convention, with the exception of derivative financial instruments, assets of the Airport of Zurich Noise Fund that are classified as available for sale, associates and pension obligations.

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

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

Judgements made by the Management Board in its application of IFRSs that have a significant effect on the consolidated financial statements, and estimates with a significant risk of adjustment in the following financial year, are discussed in "II. Judgements and significant estimates and assumptions in the application of accounting policies" on pages 72 – 74 and in the following notes in Notes to the consolidated financial statements:

- Note 8, Property, plant and equipment
- Note 10, Intangible assets
- Note 12, Investments in associates

CHANGE IN ACCOUNTING POLICIES

The company adopted the following amended International Financial Reporting Standards which are mandatory for the first time for the financial year beginning 1 January 2016:

- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
- Annual Improvements to IFRSs (2012 – 2014 Cycle)

The above-mentioned amendments did not have a significant impact on the financial position, results of operations or cash flows of Flughafen Zürich AG for financial year 2016.

INTRODUCTION OF NEW STANDARDS IN 2017 AND LATER

The new, revised and amended standards and interpretations issued by the end of 2016 and set out in the table below are not yet effective and were not applied early in these consolidated financial statements.

| New Standards or Interpretations | | Effective date | Planned application by Flughafen Zürich AG |
|---|----|----------------|--|
| IFRS 9 Financial Instruments | ** | 1 January 2018 | Financial year 2018 |
| IFRS 15 Revenue from Contracts with Customers | ** | 1 January 2018 | Financial year 2018 |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | * | 1 January 2018 | Financial year 2018 |
| IFRS 16 Leases | ** | 1 January 2019 | Financial year 2019 |
| Revisions and amendments of Standards and Interpretations | | | |
| Annual Improvements to IFRSs (2014 – 2016 Cycle): | | | |
| IFRS 12 Disclosure of Interests in Other Entities | * | 1 January 2017 | Financial year 2017 |
| IAS 28 Investments in Associates and Joint Ventures | * | 1 January 2018 | Financial year 2018 |
| Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12) | * | 1 January 2017 | Financial year 2017 |
| Disclosure Initiative (Amendments to IAS 7) | ** | 1 January 2017 | Financial year 2017 |
| Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) | * | 1 January 2018 | Financial year 2018 |
| Transfers of Investment Property (Amendments to IAS 40) | * | 1 January 2018 | Financial year 2018 |

* No, or no significant, impact is expected on the consolidated financial statements of Flughafen Zürich AG.

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments, issued in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidelines on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on the recognition and derecognition of financial instruments from IAS 39.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 16 Leases

IFRS 16 Leases sets out the accounting and disclosure requirements for lessees and lessors. The new standard supersedes the existing IAS 17 Leases and the related interpretations.

The expected effects resulting from revisions and amendments to standards and interpretations, as set out in the table, reflect the current assessment of the Management Board.

SCOPE AND METHODS OF CONSOLIDATION

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

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

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

FOREIGN CURRENCY

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

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

ALTERNATIVE KEY RESULTS

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

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

Earnings before interest and tax (EBIT)

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

REVENUE RECOGNITION

Revenue is recognised by Flughafen Zürich AG when the service has been rendered, it is probable that the economic benefits will flow to the company and it can be measured reliably. In addition, the significant risks and rewards of ownership have to be transferred to the recipient of the service.

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

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

LEASES AS LESSEE

Finance leases

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

Operating leases

Income and expenses associated with operating leases are recognised in the income statement over the period of the lease.

FINANCE RESULT

The finance result comprises interest payments on borrowings calculated using the effective interest method (excluding borrowing costs relating to buildings under construction), unwinding of the discount on non-current provisions, interest income, dividend income, foreign currency gains and losses, gains on/ losses from the disposal of financial assets classified as available for sale, impairment losses on financial assets 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 the due date.

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

PROPERTY, PLANT AND EQUIPMENT

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

Components of buildings and engineering structures plus movables with a different useful life are reported individually and depreciated separately. Expansion and replacement expenditure is capitalised only if it is probable that future economic benefits will flow to Flughafen Zürich AG. Maintenance and renovation expenditure are charged to the income statement when incurred.

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

- Buildings maximum 40 years
- Engineering structures maximum 30 years
- Tunnels and bridges maximum 50 years
- Equipment and vehicles 3 to 20 years

GOVERNMENT SUBSIDIES AND GRANTS

Government subsidies and grants related to investments are recognised as income over the useful life of each asset and reported in the income statement as an adjustment to the depreciation of the related asset. All government subsidies take the form of “à fonds perdu” grants and do not have to be repaid.

PROJECTS IN PROGRESS

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

INVESTMENT PROPERTY

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

INTANGIBLE ASSETS

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

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

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

JOINT ARRANGEMENTS

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

INVESTMENTS IN ASSOCIATES

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 holds between 20 % and 50 % of the voting rights). Associates are included in the consolidated financial statements by applying the equity method. Any difference between the cost of the investment and the fair value of the share of net assets acquired is determined at the time of acquisition and recognised as goodwill and included in the carrying amount of the investment. In subsequent reporting periods, the carrying amount is adjusted to recognise the share of Flughafen Zürich AG of any profit or loss and changes recognised in other comprehensive income of the investee and any dividends received.

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

FINANCIAL ASSETS

Financial assets include securities of the Airport of Zurich Noise Fund classified as available-for-sale financial assets. They are measured initially at fair value plus directly attributable transaction costs. The securities are also subsequently measured at fair value, with the unrealised gains and losses recognised and presented in equity (in the fair value reserve, net); when the securities are sold or in the event of an impairment, these gains and losses are transferred to the income statement.

Financial assets also include non-controlling interests not providing significant influence and loans that are measured at amortised cost, less impairment losses.

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 reserve, net. As soon as the hedged transaction has occurred, the accumulated, unrealised gains and losses are transferred to the income statement. For all other derivative instruments not qualifying for hedge accounting, 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 amortised cost, which usually corresponds to their nominal value, less an impairment allowance. The impairment allowance comprises individual adjustments for specifically identified items for which there is objective evidence that the outstanding amount will not be recovered in full, and collective adjustments for groups of receivables with a similar risk profile. Collective impairment losses relate to losses that have been incurred but for which the precise amounts are not yet known. They are based on historical data on payment statistics for receivables. As soon as there is sufficient evidence that a receivable will not be recoverable, it is directly written off or offset against the corresponding allowance.

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

CASH AND CASH EQUIVALENTS

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

NON-CURRENT ASSETS HELD FOR SALE

A non-current asset or disposal group is classified as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This sale transaction to which management has committed should be expected to be completed within one year from the date of classification as held for sale.

Non-current assets or disposal groups held for sale are presented separately under current assets and liabilities. In doing so, the assets or disposal groups are measured at the lower of carrying amount and fair value less costs to sell. Any impairment losses arising on initial reclassification are recognised in profit or loss.

IMPAIRMENT

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

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

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

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

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

EQUITY

Share capital

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

Treasury shares

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

Dividends

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

FINANCIAL LIABILITIES

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

PROVISIONS

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

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

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

EMPLOYEE BENEFITS

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

The defined benefit cost consists of three components:

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

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

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

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

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

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

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

SHARE-BASED 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 unless relating to transactions recognised in other comprehensive income or directly in equity. In these cases, taxes are also recognised in other comprehensive income or directly in equity.

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

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

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

SEGMENT REPORTING

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

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

1. Current risk situation

1.1 Legal uncertainties

Various domestic and foreign restrictions could mean that Flughafen Zürich AG will not be able to fully utilise its infrastructure and would need to finance additional investments. These restrictions include the following:

- Regulation governing the use of south German airspace
- Sectoral Aviation Infrastructure Plan (SAIP)
- Investments to reduce complexity
- Annual noise exposure reporting
- Zurich Aircraft Noise Index (ZFI)
- The lapsing of the bilateral agreements with the EU

1.2 Decline in demand

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

1.3 Increasing safety and security requirements

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

1.4 Interruptions to business due to operational events or natural hazards

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

1.5 Hub carrier

Like any other hub airport, Flughafen Zürich AG depends to a considerable extent on the operational and financial development of its hub carrier SWISS (and the latter's parent, Lufthansa). The airline SWISS is the main customer of Flughafen Zürich AG. During the year under review, SWISS accounted for around 53 % of both the passenger and around 54 % of traffic volume at Zurich Airport. The airline plays a major role within the Lufthansa Group as far as profits are concerned, so the risk of the hub carrier failing for economic reasons can be considered minor at present. Capacity reductions can never be ruled out, however.

1.6 Reporting of noise-related costs in the financial statements

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

The rulings by the Swiss Federal Supreme Court in the first half of 2008 on fundamental issues related to formal expropriations enabled Flughafen Zürich AG to reliably estimate the total cost of compensation for formal expropriations for the first time, in spite of the remaining uncertainties regarding the accuracy of this estimate. With further rulings on 8 June 2010 and 9 December 2011, the Swiss Federal Supreme Court definitively set the cut-off date for the foreseeability of an eastern approach as 1 January 1961 and ruled definitively on the method used to calculate a decline in the market value of investment property.

Based on these Federal Supreme Court rulings and other fundamental issues that have since been decided in a court of final instance, the company undertook a reappraisal of costs for formal expropriations at the end of 2010 and 2011, which in each case led to an adjustment to both the provision for formal expropriations and the intangible asset from the right of formal expropriation.

Since no further factors that would have changed the estimates made in 2011 have emerged with respect to formal expropriations from new court rulings in the final instance since the Swiss Federal Supreme Court decision of 9 December 2011, the estimated noise-related costs for formal expropriations amounted to CHF 406.5 million at the end of 2015, of which CHF 48.6 million had already been paid out at that date.

In the first half of 2016, the Swiss Federal Supreme Court handed down two rulings in pilot cases regarding claims for compensation due to eastern and southern approach routes. By answering important questions relating to how pending claims for compensation will be dealt with in a court of last instance, these rulings increased legal certainty significantly. These Swiss Federal Supreme Court rulings enabled Flughafen Zürich AG to undertake a reappraisal of the outstanding cost of compensation for formal expropriations. Based on the recalculation, the provision for formal expropriations was reduced by CHF 21.5 million as at 30 June 2016. At the same time, the intangible asset from the right of formal expropriations was reduced by the same amount.

As at the reporting date, the estimated costs for formal expropriations amounted to CHF 385.0 million, of which CHF 59.3 million had already been paid out at that date. The outstanding costs of CHF 325.7 million (nominal amount) are stated at their present value of CHF 320.2 million in the 2016 consolidated financial statements.

With respect to sound insulation and resident protection measures, the Federal Office of Civil Aviation (FOCA) required Flughafen Zürich AG, in connection with its 2014 operating regulations application, to submit an extended sound insulation programme by the end of June 2015. Based on the permitted noise exposure levels specified by FOCA, and taking into account the still pending changes to the 2014 operating regulations, the company duly submitted its 2015 sound insulation programme by this deadline. At its meeting on 22 June 2015, the Board of Directors approved a further CHF 100 million of measures in this context in addition to the CHF 240 million previously estimated for sound insulation and resident protection. The present value of these additional costs was immediately recognised as a provision, resulting in an amount of CHF 97.1 million (before taxes) being charged to profit or loss in the consolidated financial statements in financial year 2015.

As at the reporting date, the estimated costs for sound insulation and resident protection measures were unchanged at CHF 340.0 million, of which CHF 219.2 million had already been paid out at that date. The outstanding costs of CHF 120.8 million (nominal amount) are stated at their present value of CHF 119.7 million in the consolidated financial statements for the period ended 31 December 2016.

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

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

2. Impact of the current risk situation on the financial position, the results of operations and the cash flows

2.1 Value of property, plant and equipment and intangible assets; reliability of estimate of capitalised noise-related costs

Flughafen Zürich AG owns property, plant and equipment and intangible assets with a total carrying amount of around CHF 3.0 billion. If there is any indication that an asset may be impaired, the recoverable amount of the asset is calculated (impairment test). At least once a year, a check is conducted to determine whether there are any such indications and an impairment test needs to be performed. The calculation is based on the estimated future free cash flows of Flughafen Zürich AG, and a variety of assumptions have to be made in order to estimate them. Actual cash flows may be negatively impacted by the risk factors described in the previous sections (in particular 1.1 Legal uncertainties and 1.6 Reporting of noise-related costs in the financial statements) (see note 8, Property, plant and equipment and note 10, Intangible assets).

III NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SEGMENT REPORTING

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

| (CHF million) | Regulated Business | Noise | Non-regulated Business | Eliminations | Consolidated |
|--|--------------------|--------------|------------------------|---------------|----------------|
| 2016 | | | | | |
| Revenue from third parties | 608.7 | 11.7 | 392.4 | | 1,012.8 |
| Inter-segment revenue | 19.6 | | 92.5 | -112.1 | 0.0 |
| Total revenue | 628.3 | 11.7 | 484.9 | -112.1 | 1,012.8 |
| Operational expenses | -351.6 | -3.5 | -191.0 | 112.1 | -434.0 |
| Segment result (EBITDA) ³⁾ | 276.7 | 8.2 | 293.9 | 0.0 | 578.8 |
| Depreciation and amortisation | -141.6 | -5.6 | -94.3 | | -241.5 |
| Segment result (EBIT) ³⁾ | 135.1 | 2.6 | 199.6 | 0.0 | 337.3 |
| Finance result | | | | | -17.4 |
| Share of profit or loss of associates | | | | | -5.3 |
| Income tax expense | | | | | -66.6 |
| Profit | | | | | 248.0 |
| Invested capital | 1,887.5 | 149.8 | 1,178.4 | | 3,215.7 |
| Non-interest-bearing non-current liabilities ¹⁾ | | | | | 649.1 |
| Non-interest-bearing current liabilities ²⁾ | | | | | 200.6 |
| Total assets | | | | | 4,065.4 |
| ROIC (in %) | 5.7 | 1.3 | 13.6 | | 8.4 |
| Capital expenditure | 93.7 | 1.1 | 79.3 | | 174.1 |
| Investments in associates | | | 14.8 | | 14.8 |

| (CHF million) | Aviation | PRM | User Fees | Air Security | Access Fees | Eliminations | Total Regulated Business |
|---|----------------|-------------|--------------|--------------|---------------|--------------|--------------------------|
| 2016 | | | | | | | |
| Revenue from third parties | 358.5 | 12.9 | 61.4 | 174.9 | 1.0 | | 608.7 |
| Inter-segment revenue | 20.9 | | 4.9 | 11.7 | 1.9 | -19.8 | 19.6 |
| Total revenue | 379.4 | 12.9 | 66.3 | 186.6 | 2.9 | -19.8 | 628.3 |
| Operating expenses | -178.1 | -12.1 | -31.3 | -88.4 | -61.5 | 19.8 | -351.6 |
| Segment result (EBITDA) ³⁾ | 201.3 | 0.8 | 35.0 | 98.2 | -58.6 | 0.0 | 276.7 |
| Depreciation and amortisation | -94.9 | -0.2 | -34.1 | -8.0 | -4.4 | | -141.6 |
| Segment result (EBIT) ³⁾ | 106.4 | 0.6 | 0.9 | 90.2 | -63.0 | 0.0 | 135.1 |
| Invested capital | 1,437.9 | 4.7 | 310.6 | 92.5 | 41.8 | | 1,887.5 |
| ROIC (in %) | 5.9 | 11.6 | 0.2 | 79.9 | -106.9 | | 5.7 |
| Operating assets pursuant to Ordinance on Airport Charges (FGV) ⁴⁾ | 1,384.8 | 2.6 | 301.0 | 66.7 | 39.5 | | 1,794.6 |
| ROIC (in %) pursuant to FGV | 7.0 | 19.9 | 0.2 | 104.0 | -114.7 | | 6.7 |

- 1) Non-interest-bearing non-current liabilities include non-current provisions for formal expropriations plus sound insulation and resident protection, deferred tax liabilities and employee benefit obligations.
- 2) Non-interest-bearing current liabilities include current provisions for formal expropriations plus sound insulation and resident protection, current tax liabilities, trade payables and other current liabilities plus accruals and deferrals.
- 3) Segment result "Non-regulated business" (EBITDA/EBIT) after income from additional purchase price payment of CHF 7.3 million for the land for "The Circle", which fell due upon the initiation of the second phase of the project.
- 4) The Ordinance on Airport Charges (FGV) defines operating assets, on which a reasonable rate of return forms the basis for the charges, as the sum of the "residual cost of the existing assets and net working capital". This definition therefore results in minor deviations compared with the reported capital employed.

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

| (CHF million) | Regulated Business | Noise | Non-regulated Business | Eliminations | Consolidated |
|--|--------------------|--------------|------------------------|---------------|----------------|
| 2015 | | | | | |
| Revenue from third parties | 586.6 | 10.8 | 391.6 | | 989.0 |
| Inter-segment revenue | 22.7 | | 78.4 | -101.1 | 0.0 |
| Total revenue | 609.3 | 10.8 | 470.0 | -101.1 | 989.0 |
| Operational expenses | -336.3 | -100.3 | -150.7 | 101.1 | -486.2 |
| Segment result (EBITDA) ³⁾ | 273.0 | -89.5 | 319.3 | 0.0 | 502.8 |
| Depreciation and amortisation | -129.5 | -5.7 | -93.0 | | -228.2 |
| Segment result (EBIT) ³⁾ | 143.5 | -95.2 | 226.3 | 0.0 | 274.6 |
| Finance result | | | | | -37.4 |
| Share of profit or loss of associates | | | | | -3.9 |
| Income tax expense | | | | | -53.5 |
| Profit | | | | | 179.8 |
| Invested capital | 1,878.8 | 155.6 | 1,152.0 | | 3,186.4 |
| Non-interest-bearing non-current liabilities ¹⁾ | | | | | 678.0 |
| Non-interest-bearing current liabilities ²⁾ | | | | | 178.2 |
| Total assets | | | | | 4,042.6 |
| ROIC (in %) | 6.1 | -38.5 | 16.1 | | 6.8 |
| Capital expenditure | 79.6 | 0.4 | 80.2 | | 160.2 |
| Investments in associates | | | 15.4 | | 15.4 |

| (CHF million) | Aviation | PRM | User Fees | Air Security | Access Fees | Eliminations | Total Regulated Business |
|---|----------------|-------------|--------------|--------------|---------------|--------------|--------------------------|
| 2015 | | | | | | | |
| Revenue from third parties | 343.4 | 11.8 | 56.3 | 174.2 | 0.9 | | 586.6 |
| Inter-segment revenue | 21.7 | | 7.4 | 14.4 | 1.9 | -22.7 | 22.7 |
| Total revenue | 365.1 | 11.8 | 63.7 | 188.6 | 2.8 | -22.7 | 609.3 |
| Operating expenses | -167.6 | -11.7 | -29.2 | -83.5 | -67.0 | 22.7 | -336.3 |
| Segment result (EBITDA) ³⁾ | 197.5 | 0.1 | 34.5 | 105.1 | -64.2 | 0.0 | 273.0 |
| Depreciation and amortisation | -87.9 | -0.1 | -30.8 | -6.5 | -4.2 | | -129.5 |
| Segment result (EBIT) ³⁾ | 109.6 | 0.0 | 3.7 | 98.6 | -68.4 | 0.0 | 143.5 |
| Invested capital | 1,427.2 | 4.1 | 308.9 | 86.8 | 51.8 | | 1,878.8 |
| ROIC (in %) | 6.1 | -0.9 | 1.0 | 101.9 | -107.0 | | 6.1 |
| Operating assets pursuant to Ordinance on Airport Charges (FGV) ⁴⁾ | 1,393.4 | 2.6 | 303.0 | 71.1 | 47.7 | | 1,817.8 |
| ROIC (in %) pursuant to FGV | 7.0 | -1.3 | 1.0 | 105.0 | -118.9 | | 6.9 |

- 1) Non-interest-bearing non-current liabilities include non-current provisions for formal expropriations plus sound insulation and resident protection, deferred tax liabilities and employee benefit obligations.
- 2) Non-interest-bearing current liabilities include current provisions for formal expropriations plus sound insulation and resident protection, current tax liabilities, trade payables and other current liabilities plus accruals and deferrals.
- 3) Segment result "Noise" (EBITDA/ EBIT) after expenses for the increase in provisions for sound insulation and resident protection (CHF 97.1 million) and segment result "Non-regulated business" (EBITDA/ EBIT) after gain on the sale of the share of land for "The Circle" and the related allocation of the project costs incurred (CHF 34.6 million). Moreover, revenue from the adjustment to the net defined benefit liability due to the announced BVK plan amendment amounting to CHF 17.9 million was appropriately apportioned between the reportable segments' personnel expenses.
- 4) The Ordinance on Airport Charges (FGV) defines operating assets, on which a reasonable rate of return forms the basis for the charges, as the sum of the "residual cost of the existing assets and net working capital". This definition therefore results in minor deviations compared with the reported capital employed.

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

- "Aviation" segment
- "PRM" segment
- "User fees" segment
- "Air security" segment
- "Access fees" segment

In all, the company therefore has the following reportable segments:

→ **Aviation**

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

→ **PRM**

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

→ **User fees**

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

→ **Air security**

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

→ **Access fees**

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

→ **Noise**

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

→ **Non-regulated business**

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

Principles of segment reporting

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

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

The identified operating segments have not been aggregated.

Additional disclosures in accordance with the Swiss Ordinance on Airport Charges (FGV)

In accordance with Art. 34 FGV, 30 % of the economic added value in the airside area of the airport not relevant to flight operations and the area of road vehicle parking is to be used in the form of a transfer payment to finance the costs of air traffic in the “Aviation” segment. Pursuant to this rule, in 2016 the sum of CHF 16.3 million (2015: CHF 16.8 million) was allocated to the “Aviation” segment and is recognised in the reported return on operating assets. Moreover, as per Art. 45 FGV, the shortfall in the “Access fees” segment can be charged to the “Air security” segment.

Additional disclosures

Flughafen Zürich AG primarily provides services within Switzerland. In financial year 2016, external consulting services worth CHF 3.2 million (2015: CHF 9.6 million) were provided in Brazil, Morocco and Kazakhstan. Flughafen Zürich AG’s revenue with Lufthansa Group in the past financial year amounted to CHF 391.2 million (2015: CHF 374.4 million).

2 REVENUE

| (CHF 1,000) | 2016 | 2015 |
|--|------------------|----------------|
| Passenger charges | 235,034 | 226,406 |
| Security charges | 173,934 | 173,173 |
| PRM charges | 12,887 | 11,784 |
| Passenger-related flight operations charges | 421,855 | 411,363 |
| Landing charges | 90,976 | 89,423 |
| Aircraft-related noise charges | 11,680 | 10,773 |
| Emission charges | 3,688 | 3,321 |
| Parking charges | 13,238 | 6,685 |
| Freight revenue | 7,675 | 7,370 |
| Other flight operations charges | 127,257 | 117,572 |
| Total flight operations charges | 549,112 | 528,935 |
| Baggage sorting and handling system | 35,251 | 31,385 |
| De-icing | 5,549 | 2,714 |
| Check-in | 4,265 | 3,488 |
| Gate and transfer desks | 1,798 | 2,531 |
| Aircraft energy supply system | 10,886 | 13,647 |
| CUTE charges (check-in system for handling agents) | 3,591 | 5,138 |
| Other fees | 6,476 | 6,017 |
| Total aviation fees | 67,816 | 64,920 |
| Refund of security costs | 959 | 1,015 |
| Other revenue | 2,515 | 2,519 |
| Total other aviation revenue | 3,474 | 3,534 |
| Total aviation revenue¹⁾ | 620,402 | 597,389 |
| Retail, tax & duty-free | 96,450 | 95,395 |
| Food & beverage operations | 16,673 | 16,085 |
| Advertising media and promotion | 16,888 | 17,006 |
| Revenue from multi-storey car parks | 75,350 | 74,317 |
| Other commercial revenue (car rentals, taxis, banks, etc.) | 15,320 | 13,956 |
| Total commercial revenue | 220,681 | 216,759 |
| Revenue from rental and leasing agreements | 89,011 | 87,719 |
| Energy and utility cost allocation | 22,008 | 24,475 |
| Cleaning | 4,770 | 4,553 |
| Revenue from services | 7,645 | 5,611 |
| Total revenue from facility management | 123,434 | 122,358 |
| Communication services | 14,568 | 14,122 |
| Revenue from consulting activities | 3,150 | 9,610 |
| Other services and miscellaneous | 20,723 | 19,398 |
| Catering | 1,918 | 1,832 |
| Fuel charges | 7,928 | 7,505 |
| Total revenue from services | 48,287 | 52,467 |
| Total non-aviation revenue¹⁾ | 392,402 | 391,584 |
| Total revenue | 1,012,804 | 988,973 |

Revenue rose year on year, from CHF 989.0 million to CHF 1,012.8 million (+2.4%), with both aviation and non-aviation streams performing well.

Aviation revenue rose from CHF 597.4 million to CHF 620.4 million (+3.9%). The introduction of lower flight operations charges on 1 September 2016 resulted in below-average aviation revenue, compared with growth in passenger volume.

Despite a challenging environment non-aviation revenue increased slightly year on year by CHF 0.8 million and amounted to CHF 392.4 million for the 2016 financial year. Total commercial and parking revenue increased by 1.8% to CHF 220.7 million. In contrast, revenue from consulting activities declined, as two consulting mandates in India and Kazakhstan expired.

3 PERSONNEL EXPENSES

| (CHF 1,000) | 2016 | 2015 |
|--|----------------|----------------|
| Wages and salaries | 148,496 | 141,244 |
| Pension costs for defined benefit plans ¹⁾ | 23,325 | 1,280 |
| Social security contributions | 13,326 | 13,072 |
| Other personnel expenses and employee benefits | 11,486 | 12,249 |
| Total personnel expenses | 196,633 | 167,845 |
| Average number of employees (full-time positions) ²⁾ | 1,523 | 1,462 |
| Number of employees as at reporting date (full-time positions) ²⁾ | 1,523 | 1,474 |
| Personnel expense per full-time position as at 31 December | 129 | 114 |

1) See note 22, Employee benefits.

2) Including employees of the consolidated A-port Operaciones S.A. and its subsidiaries.

Staff participation programme

Flughafen Zürich AG gives those employees who have completed their first year of service a one-off gift in the form of one share free of charge. In the reporting period, 302 shares (2014: 590 shares) worth CHF 49,055 (2015: CHF 85,918) were handed out.

Bonus programme for members of the Management Board and other members of management

The total annual remuneration awarded to members of the Management Board and other members of management comprises a fixed salary and a variable performance component (bonus), which is based on the consolidated result and, depending on the function level, the degree of achievement of personal objectives. The criterion for measuring the consolidated result is earnings before interest and tax (EBIT) excluding noise-related factors, or the difference between targeted and achieved EBIT (excluding noise-related factors). The assessment of the degree of achievement of personal objectives is based on the annual management by objectives process. In both cases, the decision for a given year is taken or confirmed in the following financial year (grant date). Two thirds of the performance component is paid out in cash and one third in shares. For detailed information on the remuneration of the members of the Management Board, please refer to the separate Remuneration Report on pages 47 to 50.

| | 2016 | 2015 | 2015 ¹⁾ | Price per share ¹⁾ |
|--|--------------|--------------|--------------------|-------------------------------|
| (Recipient) | (CHF 1,000) | (CHF 1,000) | (Number of shares) | (in CHF) |
| Members of the Management Board | 424 | 288 | 1,630 | 177.40 |
| Other members of management | 815 | 697 | 3,705 | 177.40 |
| Adjustment of share price to market price in subsequent year ²⁾ | -38 | 31 | | |
| Total | 1,201 | 1,016 | 5,335 | 177.40 |

1) Shares distributed in the 2015 financial year under the bonus programme for the Management Board and other members of management (number and price per share) for the 2014 financial year. A 5-for-1 share split was implemented on 6 May 2016 (see note 17, Equity and reserves). For the purpose of comparison, the previous year's figures have been adjusted accordingly.

2) The value of the shares comprising the bonus for the 2016 financial year was CHF 38,522 lower in April 2016 (grant date) than the amount accrued for the bonus for the 2015 financial year as at year-end.

The bonus for financial year 2016 was estimated and accounted for on the basis of the data available as at the reporting date relating to the degree of achievement of the relevant consolidated result and personal objectives. The number of shares to be granted cannot be precisely calculated yet since the number depends on the share price at the grant date. If the shares had been granted as at year-end, a total of 6,560 shares would have been distributed.

Bonus programme for the Board of Directors

No bonus programme exists for members of the Board of Directors. Their remuneration comprises an annual lump sum plus payments for attending meetings (see the separate Remuneration Report on pages 47 to 50).

Option programme

No option programme exists at Flughafen Zürich AG.

4 OTHER OPERATING EXPENSES

| (CHF 1,000) | 2016 | 2015 |
|---|---------------|---------------|
| Zurich Protection & Rescue Services | 21,014 | 21,208 |
| PRM costs (service costs of service providers) | 11,517 | 11,068 |
| Other operating costs | 7,263 | 7,873 |
| Insurance | 3,200 | 3,275 |
| Cleaning by external contractors, incl. snow clearing | 2,418 | 1,997 |
| Costs for own car park | 2,116 | 2,213 |
| Communication costs | 1,863 | 1,617 |
| Passenger services | 1,575 | 1,954 |
| Total other operating expenses | 50,966 | 51,205 |

5 CAPITALISED EXPENDITURE AND OTHER INCOME / EXPENSES

| (CHF 1,000) | 2016 | 2015 |
|--|---------------|----------------|
| Capitalised expenditure | 13,513 | 12,282 |
| Other income | 10,835 | 35,014 |
| Capitalised expenditure and other income | 24,348 | 47,296 |
| Other expenses | -4,012 | -98,114 |
| Other expenses | -4,012 | -98,114 |
| Total capitalised expenditure and other income / expenses | 20,336 | -50,818 |

Capitalised expenditure of CHF 13.5 million (2014: CHF 12.3 million) primarily comprises fees for the company's architects and engineers as well as for project managers representing the client.

In the reporting period, "Other income" consists mainly of a payment of CHF 3.5 million in connection with the liquidation of Swissair in debt restructuring proceedings and an additional purchase price payment of CHF 7.3 million for the land for "The Circle", which fell due upon the initiation of the second phase of "The Circle" project. In the previous year, this item contained the gain from the first partial sale of the land for "The Circle" and the related establishment of the co-ownership structure amounting to CHF 34.6 million (see note 8, Property, plant and equipment).

In the previous year, the "Other expenses" item primarily included expenses relating to the increased provision for sound insulation and resident protection measures for the expanded sound insulation programme totalling CHF 97.1 million (see note 19, Provision for formal expropriations plus sound insulation and resident protection). The balance for the reporting period mainly includes losses on asset disposals.

6 FINANCE RESULT

| (CHF 1,000) | 2016 | 2015 |
|--|----------------|----------------|
| Interest expenses on debentures and non-current loans | -15,375 | -16,370 |
| Less capitalised interest on borrowings for buildings under construction | 1,038 | 225 |
| Net interest expenses on debentures and non-current loans | -14,337 | -16,145 |
| Interest expenses on finance lease liabilities | -622 | -1,280 |
| Accretion of interest on financial liabilities at amortised cost | -733 | -932 |
| Net interest expenses on defined benefit obligations | -1,240 | -1,575 |
| Other interest expenses | -776 | -138 |
| Total interest expenses | -17,708 | -20,070 |
| Loss on financial assets of Airport of Zurich Noise Fund | -2,324 | -1,196 |
| Other finance costs | -1,825 | -2,162 |
| Foreign exchange losses | -396 | -557 |
| Unwinding of discount on provision for formal expropriations plus sound insulation and resident protection ¹⁾ | 0 | -17,023 |
| Total finance costs | -22,253 | -41,008 |
| Interest income on financial assets of Airport of Zurich Noise Fund | 3,011 | 2,740 |
| Interest income on postal accounts and bank deposits/ loans | 38 | 89 |
| Interest on arrears | 1 | 1 |
| Unwinding of discount on provision for formal expropriations plus sound insulation and resident protection ¹⁾ | 1,052 | 0 |
| Total interest income | 4,102 | 2,830 |
| Foreign exchange gains | 434 | 761 |
| Other finance income | 288 | 12 |
| Total finance income | 4,824 | 3,603 |
| Finance result, net | -17,429 | -37,405 |

1) See note 19, Provision for formal expropriations plus sound insulation and resident protection.

The net finance result of Flughafen Zürich AG amounted to CHF -17.4 million in the reporting period, a marked improvement on the CHF -37.4 million posted in the prior-year period.

The main reason for this positive change is the interest effect from the unwinding of the discount on provisions for formal expropriations plus sound insulation and resident protection. Whereas an expense of CHF 17.0 million was incurred in the previous year due to the change to the discount rate as a result of the lower level of interest rates, income of CHF 1.1 million was generated in the reporting period, due in particular to the extended average term of future compensation payments for formal expropriations.

In addition, interest expenses on debentures and non-current loans as well as on finance lease liabilities were CHF 1.7 million lower in 2016. This is due to the repayment in full of the US private placement in April 2015 and the ongoing repayment of lease obligations.

Capitalised interest on borrowings increased by CHF 0.8 million year on year due mainly to the construction work on "The Circle". The relevant average interest rate used to calculate interest was 1.70 % in the reporting period (2015: 1.87 %).

7 INCOME TAX

| (CHF 1,000) | 2016 | 2015 |
|---|---------------|----------------|
| Taxes for current year | 71,641 | 71,214 |
| Taxes for prior years | 189 | 2,660 |
| Total current income tax | 71,830 | 73,874 |
| Deferred income tax on changes in temporary differences | -5,253 | -21,712 |
| Increase in tax rate | 0 | 1,331 |
| Total deferred income tax | -5,253 | -20,381 |
| Total income tax | 66,577 | 53,493 |

Income tax can be analysed as follows:

| (CHF 1,000) | 2016 | 2015 |
|--|---------------|---------------|
| Profit before tax | 314,595 | 233,300 |
| Tax expense at anticipated tax rate of 20.5 % (2015: 20.5 %) | 64,515 | 47,845 |
| Effect of tax rate changes on deferred taxes | 0 | 1,331 |
| Effect of share of results of associates | 847 | 576 |
| Prior period adjustments | 190 | 2,660 |
| Effect of application of different income tax rates in Switzerland | 384 | -205 |
| Effect of application of different income tax rates in foreign countries | 100 | 130 |
| Miscellaneous items | 541 | 1,156 |
| Total income tax | 66,577 | 53,493 |

8 PROPERTY, PLANT AND EQUIPMENT

In the previous year, 49 % of the land for the project "The Circle" was sold on a co-ownership basis to Swiss Life AG. The remaining portion of the land on which the project will be implemented was reclassified as "Investment property", as "The Circle" qualifies as real estate held for investment (see note 9, Investment property). In addition, Flughafen Zürich AG transferred the project costs incurred for "The Circle" up until that date to the co-ownership structure between the company and Swiss Life AG.

Projects in progress

In the past financial year, Flughafen Zürich AG invested CHF 174.1 million in projects in progress (2015: CHF 160.2 million). The biggest items comprise the following projects:

- Upgrade of Terminal 2 (CHF 36.7 million)
- Expansion of car parking (CHF 33.5 million)
- Refurbishment of curbside lanes (CHF 15.2 million)

Lease aircraft energy supply system and baggage sorting and handling system

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

The lease for the aircraft energy supply system will run until 31 July 2020. The lease for the baggage sorting and handling system ended on 31 December 2016. The relevant system was included in the remainder of CHF 5.3 million and reclassified under buildings.

Depreciation

Depreciation of property, plant and equipment totalling CHF 234.0 million was offset against government grants and subsidies recognised in the income statement in the amount of CHF 1.0 million.

Impairment

Flughafen Zürich AG voluntarily carries out a calculation at company level on a yearly basis to determine whether there is any indication that property, plant and equipment and intangible assets (see note 10, Intangible assets) may be impaired. The calculation is based on expected future free cash flows of Flughafen Zürich AG and various assumptions regarding future trends (e.g. passenger and traffic volumes, investments, the hub status of Zurich Airport and the discount rate). The calculation as at 31 December 2016 did not identify any indications of impairment.

Property, plant and equipment changed as follows in the past financial year:

| (CHF million) | Land | Engineering structures | Buildings | Leased assets | Projects in progress | Movables | Total property, plant and equipment |
|--|-------|------------------------|-----------|---------------|----------------------|----------|-------------------------------------|
| Cost | | | | | | | |
| Balance as at 1 January 2015 | 110.2 | 1,615.0 | 4,061.0 | 112.6 | 268.6 | 267.7 | 6,435.1 |
| Additions | | | | | 160.2 | | 160.2 |
| Disposals | -0.9 | -53.6 | -56.3 | | -31.5 | -6.6 | -148.9 |
| Transfers | | 98.5 | 25.0 | | -135.7 | 12.2 | -0.0 |
| Reclassification | -1.0 | -0.3 | | | -34.4 | | -35.7 |
| Balance as at 31 December 2015 | 108.3 | 1,659.6 | 4,029.7 | 112.6 | 227.2 | 273.3 | 6,410.7 |
| Balance as at 1 January 2016 | 108.3 | 1,659.6 | 4,029.7 | 112.6 | 227.2 | 273.3 | 6,410.7 |
| Additions | | | | | 174.1 | | 174.1 |
| Disposals | | -26.1 | -7.2 | | -0.8 | -11.5 | -45.6 |
| Transfers | 0.4 | 55.7 | 175.3 | | -253.1 | 13.9 | -7.8 |
| Reclassification | | | 90.8 | -90.8 | | | 0.0 |
| Balance as at 31 December 2016 | 108.7 | 1,689.2 | 4,288.6 | 21.8 | 147.4 | 275.7 | 6,531.4 |
| Depreciation, amortisation | | | | | | | |
| Balance as at 1 January 2015 | 0.0 | -793.8 | -2,411.8 | -79.7 | 0.0 | -181.3 | -3,466.6 |
| Additions | | -51.5 | -140.5 | -11.2 | | -16.5 | -219.7 |
| Disposals | | 53.5 | 55.0 | | | 6.5 | 115.0 |
| Balance as at 31 December 2015 | 0.0 | -791.8 | -2,497.3 | -90.9 | 0.0 | -191.3 | -3,571.3 |
| Balance as at 1 January 2016 | 0.0 | -791.8 | -2,497.3 | -90.9 | 0.0 | -191.3 | -3,571.3 |
| Additions | | -55.9 | -152.1 | -11.2 | | -14.8 | -234.0 |
| Disposals | | 25.1 | 6.1 | | | 11.3 | 42.5 |
| Reclassification | | | -85.5 | 85.5 | | | 0.0 |
| Balance as at 31 December 2016 | 0.0 | -822.6 | -2,728.8 | -16.6 | 0.0 | -194.8 | -3,762.8 |
| Government subsidies and grants | | | | | | | |
| Balance as at 1 January 2015 | 0.0 | -1.2 | -1.0 | 0.0 | -2.3 | 0.0 | -4.5 |
| Additions | | -2.7 | -0.5 | | -2.3 | -0.2 | -5.7 |
| Disposals | | 0.3 | 0.5 | | | | 0.8 |
| Balance as at 31 December 2015 | 0.0 | -3.6 | -1.0 | 0.0 | -4.6 | -0.2 | -9.4 |
| Additions | | | | | -4.1 | 0.1 | -4.0 |
| Disposals | | 0.4 | 0.6 | | | | 1.0 |
| Transfers | | -7.0 | -0.7 | | 7.6 | | -0.1 |
| Balance as at 31 December 2016 | 0.0 | -10.2 | -1.1 | 0.0 | -1.1 | -0.1 | -12.5 |
| Net carrying amount as at 1 January 2015 | 110.2 | 820.0 | 1,648.2 | 32.9 | 266.3 | 86.4 | 2,964.0 |
| Net carrying amount as at 31 December 2015 | 108.3 | 864.2 | 1,531.4 | 21.7 | 222.6 | 81.8 | 2,830.0 |
| Net carrying amount as at 31 December 2016 | 108.7 | 856.4 | 1,558.7 | 5.2 | 146.3 | 80.8 | 2,756.1 |

9 INVESTMENT PROPERTY

| (CHF 1,000) | Land | Project in progress | Total investment property |
|--|------|---------------------|---------------------------|
| Cost | | | |
| Balance as at 1 January 2015 | 0 | 0 | 0 |
| Additions | 0 | 39,538 | 39,538 |
| Reclassification | 950 | 33,086 | 34,036 |
| Balance as at 31 December 2015 | 950 | 72,624 | 73,574 |
| Balance as at 1 January 2016 | 950 | 72,624 | 73,574 |
| Additions | 0 | 46,562 | 46,562 |
| Reclassification | 0 | 0 | 0 |
| Balance as at 31 December 2016 | 950 | 119,186 | 120,136 |
| Depreciation, amortisation | | | |
| Balance as at 1 January 2015 | 0 | 0 | 0 |
| Additions | 0 | 0 | 0 |
| Balance as at 31 December 2015 | 0 | 0 | 0 |
| Balance as at 1 January 2016 | 0 | 0 | 0 |
| Additions | 0 | 0 | 0 |
| Balance as at 31 December 2016 | 0 | 0 | 0 |
| Net carrying amount as at 1 January 2015 | 0 | 0 | 0 |
| Net carrying amount as at 31 December 2015 | 950 | 72,624 | 73,574 |
| Net carrying amount as at 31 December 2016 | 950 | 119,186 | 120,136 |

“The Circle” project

On 5 February 2015, Flughafen Zürich AG and Swiss Life AG notarised the purchase agreement for the share of land for “The Circle” and registered it for entry in the Land Register, thereby establishing the co-ownership structure between the two parties provided for in the financing agreements, in which Flughafen Zürich AG has a 51 % interest and Swiss Life AG a 49 % interest. Flughafen Zürich AG then transferred the project costs incurred for “The Circle” to date to the co-ownership structure (see note 8, Property, plant and equipment).

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

The share of “The Circle” property under construction is classified as investment property in accordance with IAS 40. In this context, Flughafen Zürich AG has decided to apply the cost model. The land recognised for “The Circle” in the amount of approximately CHF 1.0 million represents the purchase cost of the share of the plot of land on which the project will be implemented. The item “Project in progress” in the amount of CHF 119.2 million includes the share of the production costs capitalised to date (project and construction costs).

The fair value of “The Circle” was CHF 166.8 million at the reporting date (2015: CHF 118.3 million). The value was calculated by an external expert using the discounted cash flow method (Level 3). Under this method, the fair value is determined on the basis of the total expected future net income (before tax, interest payments, depreciation and amortisation) discounted to the present date. A risk-adjusted discount rate is set depending on the opportunities and risks and in line with market rates.

10 INTANGIBLE ASSETS

| (CHF 1,000) | Intangible asset from right of formal expropriation | Other intangible assets | Total intangible assets |
|--|---|----------------------------|----------------------------|
| Cost | | | |
| Balance as at 1 January 2015 | 210,043 | 77,779 | 287,822 |
| Additions | 0 | 0 | 0 |
| Disposals | 0 | -9,975 | -9,975 |
| Reclassification | 0 | 1,582 | 1,582 |
| Balance as at 31 December 2015 | 210,043 | 69,386 | 279,429 |
| Balance as at 1 January 2016 | 210,043 | 69,386 | 279,429 |
| Additions | 0 | 0 | 0 |
| Disposals | -21,485 | -916 | -22,401 |
| Reclassification | 0 | 7,887 | 7,887 |
| Balance as at 31 December 2016 | 188,558 | 76,357 | 264,915 |
| Depreciation, amortisation | | | |
| Balance as at 1 January 2015 | -44,131 | -67,503 | -111,634 |
| Additions | -4,556 | -4,706 | -9,262 |
| Disposals | 0 | 9,688 | 9,688 |
| Balance as at 31 December 2015 | -48,687 | -62,521 | -111,208 |
| Balance as at 1 January 2016 | -48,687 | -62,521 | -111,208 |
| Additions | -4,248 | -4,246 | -8,494 |
| Disposals | 0 | 816 | 816 |
| Balance as at 31 December 2016 | -52,935 | -65,951 | -118,886 |
| Net carrying amount as at 1 January 2015 | 165,912 | 10,276 | 176,188 |
| Net carrying amount as at 31 December 2015 | 161,356 | 6,865 | 168,221 |
| Net carrying amount as at 31 December 2016 | 135,623 | 10,406 | 146,029 |

Intangible asset from right of formal expropriation

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

As a result of the Swiss Federal Supreme Court rulings in the first half of 2016 in test cases regarding claims for compensation due to eastern and southern approach routes, Flughafen Zürich AG was able, as at 30 June 2016, to undertake a reappraisal of the outstanding costs for formal expropriations. Based on the recalculation, the provision for formal expropriations was reduced by CHF 21.5 million (see note 19 Provision for formal expropriations plus sound insulation and resident protection). At the same time, the intangible asset from the right of formal expropriation was reduced by the same amount.

As at 31 December 2016, Flughafen Zürich AG has therefore recognised an intangible asset from the right of formal expropriation in the amount of CHF 135.6 million (2015: CHF 161.4 million). This is amortised using the straight-line method over the remaining term of the operating licence (i.e. until May 2051).

Impairment

Flughafen Zürich AG voluntarily carries out a calculation at company level on a yearly basis to determine whether there is any indication that property, plant and equipment (see note 8, Property, plant and equipment) and intangible assets may be impaired. The calculation is based on expected future free cash flows of Flughafen Zürich AG and various assumptions regarding future trends (e.g. passenger and traffic volumes, investments, the hub status of Zurich Airport and the discount rate). The calculation as at 31 December 2016 did not identify any indications of impairment.

11 FINANCIAL ASSETS OF AIRPORT OF ZURICH NOISE FUND

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|---|----------------|----------------|
| Current available-for-sale securities (see note 20, Airport of Zurich Noise Fund) | 47,136 | 69,964 |
| Non-current available-for-sale securities (see note 20, Airport of Zurich Noise Fund) | 308,594 | 257,373 |
| Total financial assets of Airport of Zurich Noise Fund | 355,730 | 327,337 |

The available-for-sale securities are debentures in CHF. The investment horizon is based on the expected obligation to make payments from the Airport of Zurich Noise Fund and averages two to four years. Interest on debentures in 2016 was between 0.00 % and 3.375 % (2015: between 0.00 % and 3.375 %). See also note 14, Other receivables and prepaid expenses and note 20, Airport of Zurich Noise Fund. The funds are managed by professional financial institutions on the basis of a conservative, money market-oriented investment strategy (see note 6, Finance result and note 24.1 a) Financial risk management, i) Credit risk).

12 INVESTMENTS IN ASSOCIATES

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|---|---------------|---------------|
| Bangalore International Airport Ltd., Bengaluru (India) ¹⁾ | | |
| Share capital: INR 3,846 million (previous year INR 3,846 million) / Equity share 5.0 % (previous year 5.0 %) | n/a | 8,617 |
| A-port Chile S.A., Santiago de Chile (Chile) | | |
| Share capital: CLP 5,264 million (previous year CLP 5,264 million) / Equity share 49.0 % (previous year 49.0 %) | 3,284 | 4,223 |
| Sociedade de Participação no Aeroporto de Confins S.A., Belo Horizonte (Brazil) | | |
| Share capital: BRL 323 million (previous year BRL 144 million) / Equity share 25.0 % (previous year 25.0 %) | 11,487 | 2,538 |
| Administradora Unique IDC C.A., Porlamar (Venezuela) | | |
| Share capital: VEB 25 million (previous year VEB 25 million) / Equity share 49.5 % (previous year 49.5 %) | 0 | 0 |
| Aeropuertos Asociados de Venezuela C.A., Porlamar (Venezuela) | | |
| Share capital: VEB 10 million (previous year VEB 10 million) / Equity share 49.5 % (previous year 49.5 %) | 0 | 0 |
| Total investments in associates | 14,771 | 15,378 |

1) See note 16, Non-current assets held for sale, as the sale is expected to be completed in the first quarter of 2017.

India

On 15 April 2016, Flughafen Zürich AG signed an agreement to sell its 5 % stake in Bangalore International Airport Ltd. (BIAL), the owner and operator of the international airport in the Indian city of Bengaluru. The agreed purchase price before tax is USD 48.9 million. Subject to the customary terms and conditions, the sale is expected to be completed in the first quarter of 2017.

At that date, the interest in BIAL was measured for the last time using the equity method applied thus far. This resulted in a carrying amount of CHF 9.4 million (31 December 2015: CHF 8.6 million). The related asset has since been presented as a "Non-current asset held for sale" within current assets on Flughafen Zürich AG's consolidated balance sheet (see note 16, Assets held for sale).

Until 15 April 2016 the management of Flughafen Zürich AG considered the influence on the investment to still be significant despite the expiry of the operations and management agreement on 23 May 2015, although the company held less than 20 % in BIAL. In addition to the position on BIAL's board of directors, this assessment was based on the fact that, as a private promoter, the company still had significant influence over key decisions at BIAL and, together with the other private promoters (GVK and Siemens), Flughafen Zürich AG participated to a significant extent in decisions on strategic issues at BIAL.

Latin America

In addition to the consolidated majority interest in A-port Operaciones S. A. based in Santiago de Chile (Chile), which manages and operates airports in Latin America and the Caribbean, Flughafen Zürich AG holds indirect interests in the licence holders for the Chilean airports in Antofagasta and Iquique due to its 49 % stake in A-port Chile S. A. and an interest in Hato International Airport in Curaçao through Companhia de Participações Aeroportuárias, based in São Paulo (Brazil).

Brazil

Alongside Brazilian company CCR, Flughafen Zürich AG holds a 25 % interest in a private consortium, which in turn controls 51 % of the local airport operator Concessionária do Aeroporto Internacional de Confins S. A. – the remaining 49 % of the shares are held by the state-owned Infraero.

As a consequence, since 2014 Flughafen Zürich AG and CCR have been responsible for the operation and expansion of the international airport in Belo Horizonte in the Brazilian state of Minas Gerais. The concession agreement is for 30 years and prescribes certain infrastructure expansion during the first few years. After only 14 months' construction time, a new terminal commenced operation at the end of 2016. As a result of negative growth, coupled with the politically and economically challenging situation in Brazil, passenger volumes of 9.6 million in 2016 were 14.7 % down on the previous year.

There is an Operations, Management & Service Agreement (OMSA) with the licence holder. The company receives revenue from this service agreement. Flughafen Zürich AG appoints the retail and flight operations managers.

Venezuela

In 2010, Flughafen Zürich AG and its consortium partner Unique IDC turned to the International Centre for Settlement of Investment Disputes (ICSID) in Washington D.C. in the matter of the airport expropriated in Venezuela (Isla de Margarita). This step is in compliance with the investment protection treaty between Venezuela, Switzerland and Chile.

The ICSID reached its decision in November 2014, requiring the Bolivarian Republic of Venezuela to reimburse the consortium the costs incurred for the proceedings and project plus a compensation payment of around USD 19.5 million as well as interest incurred up until receipt of payment (around USD 17.1 million accrued as at 31 December 2016). Flughafen Zürich AG is entitled to 50 % of the total amount of the payments.

Prior to the deadline set for 18 March 2015, Venezuela appealed to the ICSID to set aside the tribunal's decision on the grounds of an infringement of procedural rules. The ICSID has requested that Venezuela make an advance payment on the costs for the proceedings. As Venezuela has not paid this advance, proceedings were stayed in early 2016, and there were no negotiations regarding the setting-aside of the tribunal's decision in the reporting period. After a stay of more than six months, the tribunal can discontinue the proceedings initiated by Venezuela.

The value of this holding has been fully impaired since 2006.

Additional disclosures

The following tables summarise the financial information for the associates of Flughafen Zürich AG. The amounts correspond to those in the associates' financial statements prepared in accordance with IFRS, adjusted for differences in accounting policies if required.

Bangalore International Airport Ltd.

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|---|------------|--------------|
| Revenue | n/a | 167,863 |
| Profit | n/a | 38,799 |
| Comprehensive income | n/a | 38,799 |
| Non-current assets | n/a | 519,936 |
| Current assets | n/a | 68,103 |
| Non-current liabilities | n/a | -337,884 |
| Current liabilities | n/a | -77,809 |
| Net equity | n/a | 172,346 |
| Equity share | n/a | 5 % |
| Carrying amount of interest in associate ¹⁾ | n/a | 8,617 |

1) See note 16, Non-current assets held for sale, as the sale is expected to be completed in the first quarter of 2017.

A-port Chile S. A.

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|---|--------------|--------------|
| Revenue | 7,385 | 7,029 |
| Loss | -2,582 | -2,044 |
| Comprehensive income | -2,582 | -2,044 |
| Non-current assets | 37,867 | 40,310 |
| Current assets | 2,954 | 3,288 |
| Non-current liabilities | -29,256 | -28,842 |
| Current liabilities | -4,863 | -6,138 |
| Net equity | 6,702 | 8,618 |
| Equity share | 49 % | 49 % |
| Carrying amount of interest in associate | 3,284 | 4,223 |

Sociedade de Participação no Aeroporto de Confins S. A.

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|---|---------------|--------------|
| Revenue | 219,206 | 93,659 |
| Loss | -20,202 | -20,819 |
| Comprehensive income | -20,202 | -20,819 |
| Non-current assets | 635,942 | 337,947 |
| Current assets | 37,858 | 29,238 |
| Non-current liabilities | -459,904 | -318,852 |
| Current liabilities | -167,949 | -38,180 |
| Net equity | 45,947 | 10,153 |
| Equity share | 25.0 % | 25.0 % |
| Carrying amount of interest in associate | 11,487 | 2,538 |

13 TRADE RECEIVABLES

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|-------------------------------------|----------------|---------------|
| Trade receivables ¹⁾ | 112,147 | 100,134 |
| Impairment allowance | -1,282 | -981 |
| Total trade receivables, net | 110,865 | 99,153 |

1) Trade receivables include an amount of CHF 35.3 million due from SWISS (2015: CHF 33.6 million). In the period between the balance sheet date and the preparation of the 2016 annual report, SWISS had paid the outstanding amount arising from airport charges in full as at 31 December 2016.

Geographical distribution of trade receivables:

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|--------------------------------|----------------|----------------|
| Switzerland | 46,970 | 58,905 |
| Europe | 9,484 | 5,145 |
| India | 0 | 624 |
| Other | 5,790 | 1,108 |
| Total aviation | 62,244 | 65,782 |
| Switzerland | 48,634 | 31,994 |
| Europe | 93 | 79 |
| India | 6 | 384 |
| Latin America | 1,096 | 1,173 |
| Other | 74 | 722 |
| Total non-aviation | 49,903 | 34,352 |
| Total trade receivables | 112,147 | 100,134 |

Classification of receivables by maturity as at the reporting date:

| | Trade receivables gross 31.12.2016 | Individual allowance 31.12.2016 | Collective allowance 31.12.2016 | Trade receivables gross 31.12.2015 | Individual allowance 31.12.2015 | Collective allowance 31.12.2015 |
|-----------------------------|---------------------------------------|------------------------------------|------------------------------------|---------------------------------------|------------------------------------|------------------------------------|
| (CHF 1,000) | | | | | | |
| Not past due | 104,647 | -674 | -522 | 91,963 | 0 | -446 |
| Past due, 0 to 30 days | 4,273 | -28 | -21 | 4,660 | 0 | -21 |
| Past due, 31 to 60 days | 1,021 | -7 | -5 | 889 | 0 | -6 |
| Past due, more than 61 days | 2,206 | -14 | -11 | 2,622 | -491 | -17 |
| Total | 112,147 | -723 | -559 | 100,134 | -491 | -490 |

The impairment allowance changed as follows in the reporting period:

| | Individual allowance | | Collective allowance | | Total allowance | |
|----------------------------------|----------------------|-------------|----------------------|-------------|-----------------|-------------|
| (CHF 1,000) | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Balance as at 1 January | -491 | -722 | -490 | -487 | -981 | -1,209 |
| Change | -232 | 231 | -69 | -3 | -301 | 228 |
| Balance as at 31 December | -723 | -491 | -559 | -490 | -1,282 | -981 |

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

14 OTHER RECEIVABLES AND PREPAID EXPENSES

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|--|---------------|---------------|
| Services not yet invoiced | 10,254 | 13,302 |
| Accrued interest on interest-bearing debt instruments Airport of Zurich Noise Fund | 910 | 1,317 |
| Prepaid services | 21,616 | 20,151 |
| Prepaid expenses and accruals | 32,780 | 34,770 |
| Tax receivables (VAT/ withholding tax) | 6,346 | 8,635 |
| Other receivables | 944 | 220 |
| Total other receivables and prepaid expenses | 40,070 | 43,625 |

Other receivables and prepaid expenses include the following financial instruments:

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|--|---------------|---------------|
| Services not yet invoiced | 10,254 | 13,302 |
| Accrued interest on interest-bearing debt instruments Airport of Zurich Noise Fund | 910 | 1,317 |
| Total financial instruments | 11,164 | 14,619 |
| Tax receivables (VAT/ withholding tax) | 6,346 | 8,635 |
| Prepaid services | 21,616 | 20,151 |
| Other receivables | 944 | 220 |
| Total other receivables and prepaid expenses | 40,070 | 43,625 |

The interest from the liquid funds of the Airport of Zurich Noise Fund that were invested separately (see also note 11, Financial assets of Airport of Zurich Noise Fund and note 20, Airport of Zurich Noise Fund) was recognised on an accrual basis.

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

15 CASH AND CASH EQUIVALENTS AND FIXED-TERM DEPOSITS

| (CHF 1,000) | 31.12.2016 | | 31.12.2015 | |
|--|----------------|---------------|----------------|----------------|
| | Total | of which AZNF | Total | of which AZNF |
| Cash on hand | 219 | 0 | 227 | 0 |
| Cash at banks and in postal accounts | 312,559 | 58,605 | 336,743 | 49,149 |
| Call money and fixed-term deposits ¹⁾ | 135,000 | 0 | 35,000 | 0 |
| Total cash and cash equivalents | 447,778 | 58,605 | 371,970 | 49,149 |
| Current fixed-term deposits ²⁾ | 50,000 | 50,000 | 50,000 | 50,000 |
| Non-current fixed-term deposits ²⁾ | 0 | 0 | 50,000 | 50,000 |
| Total fixed-term deposits | 50,000 | 50,000 | 100,000 | 100,000 |

1) Due within 90 days from date of acquisition.

2) Due after 90 days from date of acquisition.

The table below shows the original currency, the interest rates and the maturity of cash and cash equivalents and fixed-term deposits:

| | Original currency | 2016 | 2015 | 2016 | 2015 |
|--|-------------------|-----------------------|-----------------------|-----------------|-----------------|
| | | Interest rates (in %) | Interest rates (in %) | Latest maturity | Latest maturity |
| Cash at banks and in postal accounts | CHF | -0.75 to 0.00 | -0.75 to 0.02 | n/a | n/a |
| Collateral | CHF | | -0.91 to -0.01 | n/a | n/a |
| Call money and fixed-term deposits ¹⁾ | CHF | -0.40 to 0.01 | 0.00 to 0.25 | n/a | n/a |
| Fixed-term deposits ²⁾ | CHF | | -0.50 to 0.40 | n/a | 23.01.2017 |

1) Due within 90 days from date of acquisition.

2) Due after 90 days from date of acquisition.

16 NON-CURRENT ASSETS HELD FOR SALE

On 15 April 2016, Flughafen Zürich AG signed an agreement for the sale of its 5 % interest in Bangalore International Airport Ltd. (BIAL), the owner and operator of the international airport in the Indian city of Bengaluru. The agreed purchase price before tax is USD 48.9 million. Subject to the customary terms and conditions, the sale is expected to be completed in the first quarter of 2017.

At that date, the interest in BIAL was measured for the last time using the equity method applied thus far. This resulted in a carrying amount of CHF 9.4 million (31 December 2015: CHF 8.6 million). The related asset has since been presented as a "Non-current asset held for sale".

17 EQUITY AND RESERVES

| (Number of shares) ¹⁾ | Issued registered shares (nominal value, CHF 10) | Treasury shares | Total shares in circulation |
|--|---|-----------------|--------------------------------|
| Balance as at 1 January 2015 | 30,701,875 | 12,165 | 30,689,710 |
| Purchase of treasury shares | | 1,540 | -1,540 |
| Distribution of treasury shares to employees and third parties | | -7,555 | 7,555 |
| Balance as at 31 December 2015 | 30,701,875 | 6,150 | 30,695,725 |
| Purchase of treasury shares | | 5,206 | -5,206 |
| Distribution of treasury shares to employees and third parties | | -5,643 | 5,643 |
| Balance as at 31 December 2016 | 30,701,875 | 5,713 | 30,696,162 |

1) A 5-for-1 share split was implemented on 6 May 2016. For the purpose of comparison, the previous year's figures have been adjusted accordingly..

Share split

A 5-for-1 share split was implemented on 6 May 2016. The share capital of Flughafen Zürich AG amounting to CHF 307,018,750 has, since this date, been redivided into 30,701,875 fully paid-up registered shares (previously 6,140,375 registered shares) with a par value of CHF 10.00 (previously CHF 50.00).

Share rights

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

Treasury shares

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

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative fair value changes in cash flow hedging instruments in connection with transactions that have been hedged but have not yet occurred.

Fair value reserve

The fair value reserve comprises the cumulative fair value changes in available-for-sale financial assets up to the time of their derecognition.

Translation reserve

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

Earnings per share

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

| | 2016 | 2015 ¹⁾ |
|---|-------------|--------------------|
| Profit attributable to shareholders of Flughafen Zürich AG (in CHF) | 247,728,063 | 179,643,482 |
| Weighted average number of outstanding shares | 30,697,277 | 30,694,025 |
| Effect of dilutive shares | 8,286 | 8,715 |
| Adjusted weighted average number of outstanding shares | 30,705,563 | 30,702,740 |
| Basic earnings per share (in CHF) | 8.07 | 5.85 |
| Diluted earnings per share (in CHF) | 8.07 | 5.85 |

1) A 5-for-1 share split was implemented on 6 May 2016. For the purpose of comparison, the previous year's figures have been adjusted accordingly.

Dividend distribution limit

The amount available for payment as a dividend is based on the available retained earnings of Flughafen Zürich AG and is specified in accordance with the provisions of the Swiss Code of Obligations (CO). As at the reporting date, reserves amounting to CHF 154.4 million (2015: CHF 154.1 million) were subject to a restriction on distribution under the provisions of commercial law.

Dividends

The Board of Directors will propose to the General Meeting of Shareholders that an ordinary dividend of CHF 3.20 per share (CHF 98.2 million in total) be distributed from retained earnings for financial year 2016. The Board of Directors will also request that an additional dividend of CHF 3.20 per share (CHF 98.2 million in total) be paid out and charged to the capital contribution reserves.

In accordance with the resolution by the General Meeting of Shareholders on 28 April 2016, Flughafen Zürich AG paid an ordinary dividend of CHF 92.1 million in total (no dividend on treasury shares) and an additional dividend of CHF 98.2 million in total (no dividend on treasury shares) for financial year 2015.

Major shareholders and shareholder structure

The shareholder structure as at 31 December was as follows:

| | 2016 | 2015 |
|---|-----------------|-----------------|
| Public sector | 38.60 % | 38.60 % |
| Private individuals | 4.07 % | 3.69 % |
| Companies | 5.01 % | 3.35 % |
| Pension funds | 2.23 % | 1.68 % |
| Financial institutions (including nominees) | 28.58 % | 27.01 % |
| Balance available and non-registered shareholders | 21.51 % | 25.67 % |
| Total | 100.00 % | 100.00 % |

| | 2016 | 2015 |
|------------------------|-------|-------|
| Number of shareholders | 7,334 | 6,041 |

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

| | 2016 | 2015 |
|---|---------|---------|
| Canton of Zurich | 33.33 % | 33.33 % |
| City of Zurich (including pension fund of the City of Zurich) | 5.05 % | 5.05 % |

18 FINANCIAL LIABILITIES

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|--|----------------|----------------|
| Debentures | 699,274 | 948,341 |
| Non-current lease liabilities | 4,762 | 6,454 |
| Non-current financial liabilities | 704,036 | 954,795 |
| Debentures | 249,800 | 0 |
| Current lease liabilities | 1,692 | 19,195 |
| Current financial liabilities | 251,492 | 19,195 |
| Total financial liabilities | 955,528 | 973,990 |

Compared with the prior-year reporting date, the debenture of CHF 250.0 million (nominal amount) maturing in May 2017 resulted in a reclassification out of non-current and into current financial liabilities.

Also in financial year 2016, a total of CHF 19.2 million (2015: CHF 13.2 million) of the outstanding lease liabilities was repaid in accordance with the existing lease agreements, with the liabilities relating to the baggage sorting and handling system being repaid in full (see note 8, Property, plant and equipment).

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

| | as at 31.12.2016 | as at 31.12.2016 | | | Early | Interest payment |
|---|------------------|------------------|-------------|---------------|--------------|----------------------------------|
| Financial liabilities | Nominal Value | Carrying amount | Duration | Interest rate | amortisation | date |
| | (CHF 1,000) | (CHF 1,000) | | | | |
| Debenture | 300,000 | 299,576 | 2012 - 2020 | 1.250 % | no | 3.7. |
| Debenture | 400,000 | 399,698 | 2013 - 2023 | 1.500 % | no | 17.4. |
| Lease liabilities (aircraft energy supply systems) | 4,762 | 4,762 | 2003 - 2020 | 3.476 % | no | 1 st of each month |
| Total non-current financial liabilities | | 704,036 | | | | |

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

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

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

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|------------------------------------|----------------|----------------|
| Due within 1 year | 251,492 | 19,195 |
| Due between 1 and 5 years | 304,338 | 555,142 |
| Due in more than 5 years | 399,698 | 399,653 |
| Total financial liabilities | 955,528 | 973,990 |

Hedge transactions (with hedge accounting)

| Description | US private placement | | | |
|---------------------------------------|----------------------|--------------------------|--------------|------------------------|
| Duration | 2003 - 2015 | Total fair value (gross) | Deferred tax | Total fair value (net) |
| Contract amount | USD 275 million | | | |
| Fair values (CHF 1,000) | | | | |
| Balance as at 31 December 2014 | 18,632 | 18,632 | -3,765 | 14,867 |
| Adjustment to fair value | -18,632 | -18,632 | 3,765 | -14,867 |
| Balance as at 31 December 2015 | 0 | 0 | 0 | 0 |
| Adjustment to fair value | 0 | 0 | 0 | 0 |
| Balance as at 31 December 2016 | 0 | 0 | 0 | 0 |

When the US private placement was repaid on 13 April 2015, the related cross-currency interest rate swap was also terminated. Since that date, Flughafen Zürich AG has not had any hedge transactions designated for hedge accounting.

Due to the termination of the cross-currency interest rate swap, the accumulated foreign exchange differences in the hedged financial liabilities were also released in 2015:

| (CHF 1,000) | US private placement | Total foreign exchange differences (gross) | Deferred tax | Total foreign exchange differences (net) |
|---------------------------------------|-------------------------|--|--------------|--|
| Balance as at 31 December 2014 | -18,500 | -18,500 | 3,737 | -14,763 |
| Foreign exchange differences | 18,500 | 18,500 | -3,737 | 14,763 |
| Balance as at 31 December 2015 | 0 | 0 | 0 | 0 |
| Foreign exchange differences | 0 | 0 | 0 | 0 |
| Balance as at 31 December 2016 | 0 | 0 | 0 | 0 |

Following the termination of the cross-currency interest rate swap, there have not been any unrealised gains/ losses required to be recognised in the hedging reserve as an item within equity since 2015:

| (CHF 1,000) | Gross | Deferred tax | Net |
|---------------------------------------|-------------|--------------|-------------|
| Balance as at 31 December 2014 | -132 | 28 | -104 |
| Adjustment to fair value | -494 | 101 | -393 |
| Transfer to income statement | 626 | -129 | 497 |
| Balance as at 31 December 2015 | 0 | 0 | 0 |
| Adjustment to fair value | 0 | 0 | 0 |
| Transfer to income statement | 0 | 0 | 0 |
| Balance as at 31 December 2016 | 0 | 0 | 0 |

Overview of lease liabilities

The lease liabilities shown below primarily include the lease agreement for the aircraft energy supply system outlined in note 8, Property, plant and equipment. In this case, the interest rate on the lease liabilities was 3.476 % as at the reporting date.

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|--|--------------|---------------|
| Future minimum lease payments | | |
| Due within 1 year | 1,887 | 19,817 |
| Due between 1 and 5 years | 4,980 | 6,867 |
| Due in more than 5 years | 0 | 0 |
| Total future minimum lease payments | 6,867 | 26,684 |
| Future interest payments | -413 | -1,035 |
| Present value of lease liabilities | 6,454 | 25,649 |
| Due within 1 year | 1,692 | 19,195 |
| Due between 1 and 5 years | 4,762 | 6,454 |
| Due in more than 5 years | 0 | 0 |

19 PROVISION FOR FORMAL EXPROPRIATIONS PLUS SOUND INSULATION AND RESIDENT PROTECTION

| (CHF 1,000) | Formal expropriations | Sound insulation and resident protection | Total |
|---|-----------------------|--|----------------|
| Balance as at 1 January 2015 | 352,300 | 46,063 | 398,363 |
| Provision used ¹⁾ | -12,529 | -14,272 | -26,801 |
| Increase of provision | 0 | 97,135 | 97,135 |
| Unwinding of discount ²⁾ | 14,536 | 2,487 | 17,023 |
| Balance as at 31 December 2015 | 354,307 | 131,413 | 485,720 |
| of which current (planned payment within 1 year) | 19,970 | 14,970 | 34,940 |
| of which non-current (planned payment from 1 year on) | 334,337 | 116,443 | 450,780 |
| Balance as at 1 January 2016 | 354,307 | 131,413 | 485,720 |
| Provision used ¹⁾ | -10,724 | -12,585 | -23,309 |
| Decrease of provision | -21,485 | 0 | -21,485 |
| Unwinding of discount ²⁾ | -1,880 | 828 | -1,052 |
| Balance as at 31 December 2016 | 320,218 | 119,656 | 439,874 |
| of which current (planned payment within 1 year) | 19,965 | 13,983 | 33,948 |
| of which non-current (planned payment from 1 year on) | 300,253 | 105,673 | 405,926 |

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

Provision for formal expropriations

In the first half of 2016, the Swiss Federal Supreme Court handed down two rulings in pilot cases regarding claims for compensation due to eastern and southern approach routes. By answering important questions relating to how pending claims for compensation will be dealt with in a court of last instance, these rulings increased legal certainty significantly. These Swiss Federal Supreme Court rulings enabled Flughafen Zürich AG to undertake a reappraisal of the outstanding cost of compensation for formal expropriations. Based on the recalculation, the provision for formal expropriations was reduced by CHF 21.5 million as at 30 June 2016. At the same time, the intangible asset from the right of formal expropriation was reduced by the same amount (see note 10, Intangible assets).

As at the reporting date, the estimated costs for formal expropriations amounted to CHF 385.0 million, of which CHF 59.3 million had already been paid out at that date. The outstanding costs of CHF 325.7 million (nominal amount) are stated at their present value of CHF 320.2 million in the consolidated financial statements for the period ended 31 December 2016. Despite a decline in interest rates, the discount rate used to discount the nominal payment flows rose from 0.30 % to 0.35 %, as the average term of the future payments increased. It is currently expected that the payments can be completed by the end of 2025 (previously by the end of 2020).

Provision for sound insulation and resident protection

In connection with the application regarding the 2014 operating regulations, the Federal Office of Civil Aviation (FOCA) required Flughafen Zürich AG to submit an extended sound insulation programme by the end of June 2015. At its meeting on 22 June 2015, the Board of Directors approved a further CHF 100.0 million of measures in this context in addition to the CHF 240.0 million previously estimated for sound insulation and resident protection. The present value of these additional costs was recognised as a provision as at 30 June 2015, resulting in an amount of CHF 97.1 million (before taxes) being charged to profit or loss in the prior-year consolidated financial statements (see note 5, Capitalised expenditure and other income and expenses).

As at the reporting date, the estimated costs for sound insulation and resident protection measures remained unchanged at CHF 340.0 million, of which CHF 219.2 million had already been paid out at that date. The outstanding costs of CHF 120.8 million (nominal amount) are stated at their present value of CHF 119.7 million in the consolidated financial statements for the period ended 31 December 2016. Due in particular to the decline in interest rates, the discount rate used to discount the nominal payment flows dropped from 0.40 % to 0.25 %. It is currently expected that the payments, including the extended sound insulation programme, can be completed by the end of 2025.

20 AIRPORT OF ZURICH NOISE FUND

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

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

The detailed fund statement is disclosed to a committee comprising representatives of Zurich Airport customers and the relevant authorities. The regulations of the Airport of Zurich Noise Fund and other information (including an overview of its financial development) can be downloaded from the following website: www.zurich-airport.com/aznf.

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

| (CHF 1,000) | 2016 | 2015 |
|---|----------------|----------------|
| Airport of Zurich Noise Fund as at 1 January | 471,744 | 491,396 |
| Revenue from noise charges | 11,601 | 10,865 |
| Costs for sound insulation and resident protection ¹⁾ | -12,585 | -17,779 |
| Costs for formal expropriations ²⁾ | -11,406 | -12,954 |
| Balance before operating costs and finance result | 459,354 | 471,528 |
| Operating costs | -3,277 | -3,137 |
| Interest income from financial assets of Airport of Zurich Noise Fund | 2,639 | 3,897 |
| Adjustments to fair value of financial assets (available-for-sale-securities) | 1,532 | 652 |
| Realised gains / losses on financial assets (available-for-sale-securities) | -2,324 | -1,196 |
| Airport of Zurich Noise Fund as at 31 December | 457,924 | 471,744 |

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

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

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|---|----------------|----------------|
| Cash equivalents (see note 15, Cash and cash equivalents) | 58,605 | 49,149 |
| Fixed-term deposits (see note 15, Cash and cash equivalents) | 50,000 | 100,000 |
| Current available-for-sale securities (see note 11, Financial assets of Airport of Zurich Noise Fund) | 47,136 | 69,964 |
| Non-current available-for-sale securities (see note 11, Financial assets of Airport of Zurich Noise Fund) | 308,594 | 257,373 |
| Accrued asset / (liability) towards Flughafen Zürich AG ¹⁾ | -6,411 | -4,742 |
| Total assets invested for Airport of Zurich Noise Fund | 457,924 | 471,744 |

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

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

| (CHF 1,000) | 2017 | 2018 | 2019 | 2020 | 2021ff. | Total |
|---|----------------|---------------|---------------|---------------|----------------|----------------|
| Cash and cash equivalents | 58,605 | | | | | 58,605 |
| Fixed-term deposits | 50,000 | | | | | 50,000 |
| AAA | 11,905 | 23,222 | 8,148 | 7,440 | 116,140 | 166,855 |
| AA+ / AA / AA- | 7,079 | 24,713 | 8,203 | | 31,541 | 71,536 |
| A+ / A / A- | 21,483 | 8,243 | 2,008 | | 17,810 | 49,544 |
| Without rating | 6,670 | 21,194 | 5,435 | 10,069 | 24,427 | 67,795 |
| Other ¹⁾ | -6,411 | | | | | -6,411 |
| Total assets invested for Airport of Zurich Noise Fund | 149,331 | 77,372 | 23,794 | 17,509 | 189,918 | 457,924 |
| in % | 32.61 | 16.90 | 5.20 | 3.82 | 41.47 | 100.00 |

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

21 DEFERRED TAX LIABILITIES

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

The balance of deferred tax liabilities changed as follows:

| (CHF 1,000) | 2016 | 2015 |
|--|---------------|---------------|
| Deferred tax liability, net as at 1 January | 58,238 | 83,773 |
| Change in tax rate, recognised in OCI | 0 | -86 |
| Change in tax rate, recognised in income statement | 0 | 1,331 |
| Deferred taxes on adjustments to fair value of cross-currency interest rate swap recognised in hedging reserve | 0 | -101 |
| Cross-currency interest rate swap – transfer to income statement | 0 | 129 |
| Deferred taxes on remeasurement of defined benefit obligations, recognised in OCI | -3,576 | -5,095 |
| Change according to income statement | -5,253 | -21,713 |
| Deferred tax liability, net as at 31 December | 49,409 | 58,238 |

Deferred tax is allocated to the following items:

| | 31.12.2016 | | 31.12.2015 | |
|---|---------------|---------------|---------------|---------------|
| (CHF 1,000) | Assets | Liabilities | Assets | Liabilities |
| Property, plant and equipment & other intangible assets | | 17,201 | | 20,926 |
| Investments in associates and other financial assets | | 1,522 | | 2,274 |
| Renovation fund | | 33,333 | | 32,206 |
| Aircraft noise | | 36,674 | | 35,291 |
| Financial liabilities issuing costs | | 190 | | 340 |
| Employee benefit obligations | 39,728 | | 33,058 | |
| Miscellaneous items | | 217 | | 259 |
| Deferred tax, gross | 39,728 | 89,137 | 33,058 | 91,296 |
| Offsetting of assets and liabilities | -39,728 | -39,728 | -33,058 | -33,058 |
| Deferred tax liability, net | 0 | 49,409 | 0 | 58,238 |

22 EMPLOYEE BENEFITS

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|-------------------------------------|-----------------|-----------------|
| Post-employment benefit obligations | -182,633 | -158,147 |
| Other long-term employee benefits | -11,163 | -10,813 |
| Employee benefit obligations | -193,796 | -168,960 |

22.1 Post-employment benefits

Flughafen Zürich AG maintains the following employee benefit plans:

a) Defined benefit plans

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

The employees of Flughafen Zürich AG are affiliated to the BVK (Employee Pension Fund of the Canton of Zurich). The BVK is a multi-employer plan for employees of the Canton of Zurich and other employers. In accordance with the revised Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision (BVG), the BVK was separated from the administrative structure of the Canton of Zurich in legal, organisational and financial terms on 1 January 2014 and has since then operated as a foundation under private law. The BVK is registered with the Pensions and Trusts Supervisory Authority of the Canton of Zurich and is monitored by the latter.

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

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

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

Owing to the current shortfall – according to the applicable Swiss accounting regulations (Art. 44 BVV2), the liabilities of the BVK were funded at an (unaudited) level of 99.4 % as at 31 December 2016 (2014: 96.1 %) – Flughafen Zürich AG has been obliged since 1 January 2013 to pay restructuring contributions for all insured persons amounting to 2.5 % of the insured salary until this shortfall has been eliminated.

Employees of Flughafen Zürich AG are insured with the BVK against the risks of old age, death and disability. The retirement benefits are determined on the basis of the individual retirement savings accounts at the time of retirement and are calculated by multiplying the balance of the savings account by the conversion rate stipulated in the regulations. The statutory retirement age is 65. Early retirement with a reduced conversion rate is possible as of the time the employee turns 60. Flughafen Zürich AG pays age-related contributions for all insured persons of between 7.2 % and 14.4 % of the insured salary and risk contributions of 1.8 % (up to the age of 23, the risk contribution is just 1.2 %).

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

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

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

BVK plan amendment effective 1 January 2017

On 7 July 2015, the BVK Foundation Board decided to adjust the actuarial bases with effect from 1 January 2017 and reduce the discount rate from the current 3.25 % to 2.0 % in order to safeguard pensions over the long term. The adjustment also results in a change to the pension conversion rates and in generally higher savings contributions for employees and the employer. As of 1 January 2017, the age-related savings contributions required to be paid by Flughafen Zürich AG for all insured persons are between 6.0 % and 17.4 % of the insured salary (previously: between 7.2 % and 14.4 %). By contrast, the risk contributions required to be assumed by the employee fall from 1.8 % to 1.2 %. Up to the age of 20 (previously: 23), only the risk contribution is incurred.

In the previous year, the plan amendment resulted in past service cost of CHF 17.9 million being recognised in profit or loss.

Explanation of the amounts in the consolidated financial statements

The actuarial calculation of the defined benefit obligations as at 31 December 2016 and the service cost was performed by independent actuaries using the projected unit credit method. The fair value of the plan assets was determined as at 31 December 2016 based on the information available at the date of preparation of the annual financial statements.

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

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

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|--|-----------------|-----------------|
| Present value of funded defined benefit obligations | -657,505 | -612,545 |
| Fair value of plan assets | 474,872 | 454,398 |
| Net defined benefit obligations recognised in the balance sheet | -182,633 | -158,147 |

The defined benefit obligations changed as follows:

| (CHF 1,000) | 2016 | 2015 |
|---|-----------------|-----------------|
| Present value of defined benefit obligations as at 1 January | -612,545 | -579,673 |
| Current service costs | -23,067 | -18,921 |
| Past service costs | 0 | 17,899 |
| Interest expenses on defined benefit obligations | -4,807 | -6,244 |
| Employee contributions | -9,791 | -9,429 |
| Benefits paid | 27,302 | 11,245 |
| Gain / (loss) due to experience | -19,789 | -6,388 |
| Gain / (loss) due to demographic assumption changes | 3,561 | 3,631 |
| Gain / (loss) due to financial assumption changes | -18,369 | -24,665 |
| Present value of defined benefit obligations as at 31 December | -657,505 | -612,545 |

The weighted average duration of the defined benefit obligations at 31 December 2016 was 17.3 years (2015: 17.4 years).

The plan assets changed as follows:

| (CHF 1,000) | 2016 | 2015 |
|---|----------------|----------------|
| Fair value of plan assets as at 1 January | 454,398 | 432,633 |
| Employer contributions | 17,443 | 16,804 |
| Employee contributions | 9,791 | 9,429 |
| Benefits paid | -27,302 | -11,245 |
| Administration expenses | -258 | -258 |
| Interest income on plan assets | 3,647 | 4,768 |
| Return on plan assets excluding amounts included in interest income | 17,153 | 2,267 |
| Fair value of plan assets as at 31 December | 474,872 | 454,398 |

The net defined benefit obligations changed as follows:

| (CHF 1,000) | 2016 | 2015 |
|---|-----------------|-----------------|
| Net defined benefit obligations as at 1 January | -158,147 | -147,040 |
| Total charge recognised in the income statement | -24,485 | -2,756 |
| Total remeasurements recognised in other comprehensive income | -17,444 | -25,155 |
| Employer contributions | 17,443 | 16,804 |
| Net defined benefit obligations as at 31 December | -182,633 | -158,147 |

The company expects employer contributions of CHF 19.6 million for financial year 2017.

Analysis of the amounts recognised in the income statement:

| (CHF 1,000) | 2016 | 2015 |
|--|----------------|---------------|
| Current service cost | -23,067 | -18,921 |
| Past service cost | 0 | 17,899 |
| Net interest expenses on defined benefit obligations | -1,160 | -1,476 |
| Administration expenses | -258 | -258 |
| Total charge recognised in the income statement | -24,485 | -2,756 |

Analysis of the amounts recognised in other comprehensive income:

| (CHF 1,000) | 2016 | 2015 |
|--|----------------|----------------|
| Actuarial gains/(losses) due to experience | -19,789 | -6,388 |
| Actuarial gains/(losses) due to changes in financial assumptions | -18,369 | -24,665 |
| Gain/(loss) due to demographic assumption changes | 3,561 | 3,631 |
| Return on plan assets excluding amounts included in net interest | 17,153 | 2,267 |
| Total remeasurements recognised in other comprehensive income | -17,444 | -25,155 |

Assumptions used to determine the defined benefit obligations at year-end:

| (in %) | 2016 | 2015 |
|-------------------------------------|------|------|
| Discount rate | 0.60 | 0.80 |
| Underlying consumer price inflation | 0.50 | 1.00 |
| Future salary increases | 1.00 | 1.00 |
| Rate of pension increases | 0.00 | 0.00 |

Breakdown of plan assets by asset class:

| (in %) | 31.12.2016 | 31.12.2015 |
|---------------------------|--------------|--------------|
| Asset category: | | |
| Cash and cash equivalents | 2.0 | 6.0 |
| Shares | 33.0 | 31.0 |
| Bonds | 37.0 | 34.0 |
| Property | 18.0 | 19.0 |
| Other | 10.0 | 10.0 |
| Total | 100.0 | 100.0 |

Sensitivities

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

| (CHF 1,000) | 2016 Effect on DBO | | 2015 Effect on DBO | |
|--|-----------------------|---------|-----------------------|---------|
| | +0.25 % | –0.25 % | +0.25 % | –0.25 % |
| Discount rate | –26,300 | 28,273 | –23,277 | 25,114 |
| Future salary increases | 1,973 | –1,315 | 0 | 0 |
| Interest rate on retirement savings accounts | 3,945 | –2,630 | –613 | 613 |

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

b) Defined contribution plan

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

22.2 Other long-term employee benefits

Flughafen Zürich AG pays its employees loyalty bonuses on the basis of years of service, in accordance with the employment regulations of 1 January 2016. The corresponding provision of CHF 11.2 million (2015: CHF 10.8 million) was calculated based on the number of accumulated years of service which, at the reporting date, was 9.1 years (2015: 8.9 years).

23 OTHER CURRENT LIABILITIES, ACCRUALS AND DEFERRALS

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|--|----------------|---------------|
| Expenses not invoiced | 40,209 | 35,125 |
| Accrued interest on financial liabilities | 9,992 | 9,732 |
| Investments not invoiced | 36,951 | 5,802 |
| Deferred income | 5,891 | 1,213 |
| Deferred income and accruals | 93,043 | 51,872 |
| Amounts due to personnel (holidays and overtime) | 3,594 | 3,436 |
| Deposits and advance payments by customers | 4,011 | 6,895 |
| Social security contributions | 2,425 | 6,134 |
| Other liabilities | 1,063 | 514 |
| Total other current liabilities, accruals and deferrals | 104,136 | 68,851 |

Other current liabilities, accruals and deferrals include the following financial instruments:

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|--|----------------|---------------|
| Expenses not invoiced | 40,209 | 35,125 |
| Accrued interest on financial liabilities | 9,992 | 9,732 |
| Investments not invoiced | 36,951 | 5,802 |
| Total liabilities carried at amortised cost | 87,152 | 50,659 |
| Amounts due to personnel (holidays and overtime) | 3,594 | 3,436 |
| Deposits and advance payments by customers | 4,011 | 6,895 |
| Deferred income | 5,891 | 1,213 |
| Social security contributions | 2,425 | 6,134 |
| Other liabilities | 1,063 | 514 |
| Total other current liabilities, accruals and deferrals excluding financial instruments | 16,984 | 18,192 |
| Total other current liabilities, accruals and deferrals | 104,136 | 68,851 |

24 FURTHER DETAILS

24.1 Information concerning the performance of a risk assessment

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

Risk management ensures that risks are handled systematically with due consideration. As well as making all the risks associated with business activities transparent and enabling risk situations to be monitored, it supports a process of continual improvement.

The risk management system is the management and operating 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
- Auditing and review of the risk management system

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

Board of Directors, Management Board and Chief Risk Officer

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

Risk Management & Insurance department

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

Line units (divisions and departments)

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

Specialised units

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

In reporting on risks, Flughafen Zürich AG describes in detail the most important business risks identified and assesses them for their probability of occurrence as well as for their potential operational and economic impact. Responsibilities and a plan of action with specific target dates are also defined and outline how the respective risk can be reduced. The risk management organisation monitors the implementation of the plan on an ongoing basis.

a) Financial risk management

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

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

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

i) Credit risk

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

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

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

With the exception of SWISS as the main client, credit risk is distributed over a broad clientele. Trade receivables include an amount of CHF 35.3 million (2015: CHF 33.6 million) due from SWISS (see note 13, Trade receivables). In the period between the reporting date and the preparation of the 2016 annual report, SWISS paid the outstanding amount arising from flight operations charges as at 31 December 2016 in full.

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

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

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

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|--|----------------|----------------|
| Cash equivalents (excluding cash on hand) | 447,559 | 371,743 |
| Current and non-current fixed-term deposits | 50,000 | 100,000 |
| Non-current financial assets of Airport of Zurich Noise Fund | 308,594 | 257,373 |
| Trade receivables, net | 110,865 | 99,153 |
| Current financial assets of Airport of Zurich Noise Fund | 47,136 | 69,964 |
| Other receivables and prepaid expenses | 11,164 | 14,619 |
| Other financial assets | 23 | 23 |
| Total maximum exposure to credit risk | 975,341 | 912,875 |

ii) Liquidity risk

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

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

| (CHF 1,000) | Duration | 31.12.2016 | 31.12.2015 |
|---|------------|----------------|----------------|
| Operating credit lines (committed credit lines) ¹⁾ | 31.12.2019 | 240,000 | 240,000 |
| Total credit lines | | 240,000 | 240,000 |
| Utilisation ²⁾ | | -60 | -60 |
| Total unused credit lines | | 239,940 | 239,940 |

1) The operating credit lines were extended on 8 December 2014 in the amount of CHF 240 million and with duration from 1 January 2015 until 31 December 2019.

2) Letter of credit and bank guarantees.

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

| (CHF 1,000) | Carrying amount | Contractual cash flows | Due within 1 year | Due within 1 to 5 years | Due in more than 5 years |
|---|------------------|------------------------|-------------------|-------------------------|--------------------------|
| 31.12.2016 | | | | | |
| Debentures | 949,074 | 1,012,625 | 265,375 | 335,250 | 412,000 |
| Lease liabilities | 6,454 | 6,867 | 1,887 | 4,980 | 0 |
| Trade payables | 32,349 | 32,349 | 32,349 | 0 | 0 |
| Other current liabilities and accruals | 87,152 | 87,152 | 87,152 | 0 | 0 |
| Total non-derivative financial liabilities | 1,075,029 | 1,138,993 | 386,763 | 340,230 | 412,000 |
| Total financial liabilities | 1,075,029 | 1,138,993 | 386,763 | 340,230 | 412,000 |

| (CHF 1,000) | Carrying amount | Contractual cash flows | Due within 1 year | Due within 1 to 5 years | Due in more than 5 years |
|---|------------------|------------------------|-------------------|-------------------------|--------------------------|
| 31.12.2015 | | | | | |
| Debentures | 948,341 | 1,028,000 | 15,375 | 594,625 | 418,000 |
| Lease liabilities | 25,649 | 26,684 | 19,817 | 6,867 | 0 |
| Trade payables | 41,081 | 41,081 | 41,081 | 0 | 0 |
| Other current liabilities and accruals | 50,659 | 50,659 | 50,659 | 0 | 0 |
| Total non-derivative financial liabilities | 1,065,730 | 1,146,424 | 126,932 | 601,492 | 418,000 |
| Total financial liabilities | 1,065,730 | 1,146,424 | 126,932 | 601,492 | 418,000 |

iii) Market risk (foreign currency and interest rate risks)

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

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

iiia) Currency risk

Currency risks arise on transactions in currencies that differ from the respective functional currencies of the group's entities.

In its business operations, most of the group's transactions are conducted in Swiss francs, which means that no currency risks need to be hedged. As at the reporting date, Flughafen Zürich AG had foreign currency accounts in euros and US dollars.

The following table shows the currency risks:

| (CHF 1,000) | 31.12.2016 | | 31.12.2015 | |
|--------------------------------------|--------------|------------|--------------|------------|
| | Euro | US dollars | Euro | US dollars |
| Cash at banks and in postal accounts | 3,435 | 629 | 1,601 | 533 |
| Trade receivables | 715 | 277 | 711 | 0 |
| Total currency risk assets | 4,150 | 906 | 2,312 | 533 |

An appreciation or depreciation in the exchange rate of the Swiss franc by 10% against the currencies below as at 31 December 2016 would have increased or decreased profit or equity by the amounts in the table below. This analysis assumes that all other variables – in particular interest rates – are unchanged. The analysis for the prior year was based on the same assumptions.

| (CHF 1,000) | Appreciation of CHF (plus 10 %) | | Depreciation of CHF (minus 10 %) | |
|-------------------|---------------------------------|-------------|----------------------------------|------------|
| | Equity | Profit | Equity | Profit |
| US dollars | 0 | -42 | 0 | 42 |
| Euro | 0 | -184 | 0 | 184 |
| 31.12.2015 | 0 | -226 | 0 | 226 |
| US dollars | 0 | -73 | 0 | 73 |
| Euro | 0 | -354 | 0 | 354 |
| 31.12.2016 | 0 | -427 | 0 | 427 |

iiib) Interest rate risk

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

Preference is normally given to external financing denominated in Swiss francs and subject to fixed interest rate payments. However, if external financing in foreign currencies is obtainable on more attractive terms, both the currency and the interest rate risk are hedged. In the case of such foreign currency transactions, the aim is to make fixed interest payments and repayments in Swiss francs. At the present time, Flughafen Zürich AG only has external financing denominated in Swiss francs.

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

The financial assets of the Airport of Zurich Noise Fund are primarily invested in fixed-rate debt instruments. The direct use of derivative financial instruments is not permitted here.

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

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|---|-----------------|-----------------|
| Fixed-interest financial assets of Airport of Zurich Noise Fund | 355,730 | 327,337 |
| Current and non-current fixed-term deposits | 50,000 | 100,000 |
| Fixed-interest financial instruments (assets) | 405,730 | 427,337 |
| Cash and cash equivalents | 389,173 | 322,821 |
| Cash and cash equivalents of Airport of Zurich Noise Fund | 58,605 | 49,149 |
| Variable-interest financial instruments (assets) | 447,778 | 371,970 |
| Total interest-bearing assets | 853,508 | 799,307 |
| Debentures | -949,074 | -948,341 |
| Lease liabilities | -6,454 | -25,649 |
| Fixed interest financial instruments (liabilities) | -955,528 | -973,990 |
| Total interest-bearing liabilities | -955,528 | -973,990 |

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

| (CHF 1,000) | Increase by 50 bp | | Decrease by 50 bp | |
|---|-------------------|--------------|-------------------|---------------|
| | Equity | Profit | Equity | Profit |
| Variable-interest financial instruments | 0 | 1,677 | 0 | -1,677 |
| Fixed-interest financial instruments | -4,606 | 0 | 4,606 | 0 |
| 31.12.2015 | -4,606 | 1,677 | 4,606 | -1,677 |
| Variable-interest financial instruments | 0 | 1,979 | 0 | -1,979 |
| Fixed-interest financial instruments | -5,812 | 0 | 5,812 | 0 |
| 31.12.2016 | -5,812 | 1,979 | 5,812 | -1,979 |

b) Fair values

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

Financial assets in the Airport of Zurich Noise Fund: The fair value corresponds to the market price of the securities at the reporting date (level 1).

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

| (CHF 1,000) | Carrying amount | Fair value | Carrying amount | Fair value |
|--------------|-----------------|----------------|-----------------|------------------|
| | 31.12.2016 | 31.12.2016 | 31.12.2015 | 31.12.2015 |
| Debentures | 949,074 | 996,967 | 948,341 | 1,006,075 |
| Total | 949,074 | 996,967 | 948,341 | 1,006,075 |

c) Categories of financial instruments

The following table shows the carrying amounts of all financial instruments by category:

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|---|-------------------|-------------------|
| Cash (excl. cash on hand) and cash equivalents, collateral and short-term monetary investments | 447,559 | 371,743 |
| Current and non-current fixed-term deposits | 50,000 | 100,000 |
| Trade receivables, net | 110,865 | 99,153 |
| Other receivables and prepaid expenses | 11,164 | 14,619 |
| Other financial assets | 11 | 11 |
| Total loans and receivables | 619,599 | 585,526 |
| Current and non-current financial assets of Airport of Zurich Noise Fund | 355,730 | 327,337 |
| Other financial assets ¹⁾ | 3,486 | 3,268 |
| Total available-for-sale financial assets | 359,216 | 330,605 |
| Financial liabilities | -955,528 | -973,990 |
| Trade payables, net | -32,349 | -41,081 |
| Other current liabilities and prepaid expenses, excluding derivatives and non-financial instruments | -87,152 | -50,659 |
| Total liabilities carried at amortised cost | -1,075,029 | -1,065,730 |

1) Carried at cost.

d) Fair value hierarchy of financial instruments

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

Level 1 – Quoted market prices

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

Level 2 – Measurement based on observable inputs

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

Level 3 – Measurement based on unobservable inputs

The inputs for these assets or liabilities are not observable.

| | Available-for-sale securities Debt instruments Airport of Zurich Noise Fund | |
|---|--|----------------|
| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
| Level 1 (quoted market price) | 355,730 | 327,337 |
| Level 2 (valuation based on observable input) | 0 | 0 |
| Level 3 (valuation based on unobservable input) | 0 | 0 |
| Total at fair value | 355,730 | 327,337 |

e) Capital management

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

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

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

24.2 Tenancy agreements

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

a) Fixed tenancy agreements

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

b) Turnover-based agreements

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

Commercial revenue (retail, tax & duty free plus food & beverage) and revenue from facility management (rental and leasing agreements) in the reporting period comprised conditional rental payments amounting to CHF 90.2 million (see also note 2, Revenue).

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

| (CHF 1,000) | 31.12.2016 |
|-------------------------------|----------------|
| Due date up to 1 year | 98,061 |
| Due date from 1 to 5 years | 216,039 |
| Due date in more than 5 years | 121,706 |
| Total | 435,806 |

24.3 Capital commitments

As at the reporting date, capital commitments for various buildings and engineering structures amounted to around CHF 192 million in total. The most significant capital commitments involved the expansion of car parking (CHF 65 million), refurbishment of Zones A (CHF 26 million) and West (CHF 21 million) and also of the dock guidance system (CHF 11 million). In addition, the company's share of capital commitments for "The Circle" still amount to approximately CHF 250 million.

24.4 Contingent liabilities

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

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

As part of its involvement in the expansion and operation of Confins International Airport in Belo Horizonte, Flughafen Zürich AG provides a guarantee as credit protection for local debt financing, which is made available by the Brazilian development bank Banco Nacional de Desenvolvimento Econômico e Social (BNDES). As at the reporting date, the amount of this guarantee is CHF 14.9 million (31 December 2015: CHF 0.0 million). Moreover, the company has entered into a counterbond for a performance bond which the operator, Concessionária do Aeroporto Internacional de Confins S.A., had to submit to Brazil's National Civil Aviation Authority (ANAC). As at the reporting date, the amount arising from the counterbond was CHF 22.0 million (31 December 2015: CHF 18.2 million).

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

24.5 Related parties

Related parties are:

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

a) Transactions with related parties

In the reporting period, the Canton of Zurich police force was paid CHF 97.2 million (2015: CHF 97.2 million) by Flughafen Zürich AG in accordance with the applicable service level agreement. In this context, accrued expenses amounting to CHF 8.0 million at the reporting date (2015: CHF 9.2 million) were included in "Other current liabilities, accruals and deferrals".

The consulting revenue generated by the subsidiary Zurich Airport International AG from the operations and management agreement for the airport in Belo Horizonte amounted to CHF 2.2 million in financial year 2016 (2015: CHF 6.4 million). In this context, accrued income of CHF 0.7 million at the reporting date (2015: CHF 3.5 million) receivable from Concessionária do Aeroporto Internacional de Confins S.A. was included in "Other receivables and prepaid expenses". In addition, "Trade receivables" in 2015 included an amount of CHF 0.8 million still receivable from the operator in Belo Horizonte for services rendered.

Moreover, in the previous year, revenue of CHF 1.4 million was generated from the Operations, Management & Service Agreement with Bangalore International Airport Ltd. (BIAL), which expired on 23 May 2015. Accordingly, "Trade receivables" as at 31 December 2015 included amounts still receivable from BIAL totalling CHF 0.4 million.

In the reporting period, Flughafen Zürich AG paid employer contributions amounting to CHF 17.4 million (2015: CHF 16.8 million) to the BVK Employee Pension Fund of the Canton of Zurich for employee benefits (see note 22, Employee Benefits). As at the reporting date, CHF 2.3 million of this (2015: CHF 4.5 million) was still included in "Other current liabilities, accruals and deferrals" (see note 23).

b) Shares held by related parties

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

| Name | Function | Number of shares as at | Number of shares as at ³⁾ |
|----------------------------------|--|---------------------------|---|
| | | 31.12.2016 | 31.12.2015 |
| Andreas Schmid | Chairman | 20 | 20 |
| Vincent Albers ¹⁾ | Member | 350 | 0 |
| Guglielmo L. Brentel | Member | 174 | 0 |
| Corine Mauch | Member | 0 | 0 |
| Eveline Saupper ¹⁾ | Vice Chairwoman | 675 | 675 |
| Kaspar Schiller | Member; Chairman of the Nomination & Compensation Com. | 65 | 65 |
| Ulrik Svensson | Member; Chairman of the Audit & Finance Committee | 0 | 0 |
| Carmen Walker Späh ²⁾ | Member; Chairwoman of the Public Affairs Committee | 5 | 5 |
| Total | | 1,289 | 765 |

1) Since 28 April 2015.

2) Since 1 July 2015.

3) A 5-for-1 share split was implemented on 6 May 2016 (see note 17, Equity and reserves). For the purpose of comparison, the previous year's figures have been adjusted accordingly.

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

| Name | Number of shares as at | Number of shares as at ³⁾ |
|--------------------------------|---------------------------|---|
| | 31.12.2016 | 31.12.2015 |
| Stephan Widrig | 3,025 | 4,665 |
| Stefan Conrad | 2,925 | 2,620 |
| Stefan Gross ¹⁾ | 0 | n/a |
| Daniel Scheifele ²⁾ | 0 | n/a |
| Daniel Schmucki | 5,950 | 5,645 |
| Total | 11,900 | 12,930 |

1) Since 1 February 2016.

2) Since 1 April 2016.

3) A 5-for-1 share split was implemented on 6 May 2016 (see note 17, Equity and reserves). For the purpose of comparison, the previous year's figures have been adjusted accordingly.

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

c) Remuneration for key management personnel

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

| (CHF 1,000) | 2016 | 2015 |
|------------------------------|--------------|--------------|
| Short-term employee benefits | 4,064 | 3,480 |
| Post-employment benefits | 542 | 742 |
| Other long-term benefits | 0 | 0 |
| Share-based payments | 425 | 304 |
| Total | 5,031 | 4,526 |

24.6 Composition of the group

In the reporting period, the group comprised the following companies:

| Company | Domicile | Share Capital | Stake held |
|-----------------------------------|-------------------|-------------------|----------------|
| Flughafen Zürich AG | Kloten | CHF 307,018,750 | Parent company |
| Zurich Airport International AG | Kloten | CHF 100,000 | 100.0 % |
| Zurich Airport Latin America S.A. | Santiago de Chile | CLP 4,403 million | 100.0 % |
| A-Port Operaciones S.A. | Santiago de Chile | CLP 1,352 million | 62.0 % |
| A-Port Operaciones Colombia S.A. | Bogotá | COP 100 million | 62.0 % |
| Unique IDC S.A. de C.V. | Tegucigalpa | HNL 200 million | 62.0 % |

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

| Company | Domicile | Share Capital | Stake held |
|---|-------------------|-------------------|------------|
| A-port Chile S.A. | Santiago de Chile | CLP 5,264 million | 49.0 % |
| Sociedad Concesionaria Aeropuerto Antofagasta S.A. | Santiago de Chile | CLP 3,600 million | 49.0 % |
| Sociedad Concesionaria Aeropuerto Iquique S.A. | Santiago de Chile | CLP 600 million | 49.0 % |
| Sociedad Concesionaria Puerto Montt S.A. | Santiago de Chile | CLP 7 million | 16.3 % |
| Sociedade de Participação no Aeroporto de Confins S.A. | Belo Horizonte | BRL 323 million | 25.0 % |
| Concessionária do Aeroporto Internacional de Confins S.A. | Belo Horizonte | BRL 612 million | 12.3 % |
| Administradora Unique IDC C.A. | Porlamar | VEB 25 million | 49.5 % |
| Aeropuertos Asociados de Venezuela C.A. | Porlamar | VEB 10 million | 49.5 % |

24.7 Notes on service concession agreements

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

a) Main conditions

The licence encompasses the operation of an airport in accordance with the provisions of the ICAO (International Civil Aviation Organisation) governing domestic, international and intercontinental civil aviation services.

Flughafen Zürich AG is authorised and obliged to operate Zurich Airport for the entire period cited in the operating licence, and to provide the necessary infrastructure for this purpose. To accomplish this, it is entitled to collect charges from all users of the airport. Furthermore, Flughafen Zürich AG is authorised to assign specific rights and obligations arising from the operating licence to third parties. Insofar as they concern activities relating to airport operations such as refuelling, aircraft handling, passenger handling, baggage sorting and handling, mail 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).

b) Obligations

The concessionaire is obliged to grant access to the airport to all aircraft that are licensed to provide domestic and international flights. The volume of flight traffic and handling of licensed aircraft are governed by the regulations laid down in the Sectoral Aviation Infrastructure Plan (SAIP) and the provisions of the operating regulations.

The concessionaire is obligated to implement all measures relating to regulations governing the use of German airspace for landings at, and take-offs from, Zurich Airport without delay, and to submit the necessary applications for approval by the authorities in good time. The concessionaire is empowered and obliged to enforce sound insulation measures and to implement them where they are not contested.

The provision whereby the concessionaire shall meet all obligations to which it is bound through clauses of the civil aviation treaty between Germany and Switzerland without entitlement to compensation was declared null and void in response to an objection lodged by Flughafen Zürich AG.

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

24.8 Events after the reporting date

The Board of Directors authorised the 2016 consolidated financial statements for issue on 2 March 2017. These also have to be approved by the General Meeting of Shareholders.

No events occurred between 31 December 2016 and the date on which these consolidated financial statements were authorised for issue by the Board of Directors which would require an adjustment to the carrying amounts of the group's assets and liabilities or which would have to be disclosed here.



Statutory Auditor's Report

To the General Meeting of Flughafen Zürich AG, Kloten

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Flughafen Zürich AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 59 to 113) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

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

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

Key Audit Matters



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



Investments in property, plant and equipment

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



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

Key Audit Matter

As at 31 December 2016, Flughafen Zürich AG has recognised provisions for sound insulation and resident protection amounting to CHF 119.7 million and a further CHF 320.2 million for formal expropriations. The intangible asset from the right of formal expropriation amounts to CHF 135.6 million as at that date.

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

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

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

Our response

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

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

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

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

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

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

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



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

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

- I Accounting policies, Intangible assets (page 68) and Provisions (page 70)
- II Judgements and significant estimates and assumptions in the application of accounting policies, 1.6 Reporting of noise-related costs in the financial statements (pages 73 and 74)
- III Notes, Note 10 Intangible assets (page 86), Note 19 Provision for formal expropriations plus sound insulation and resident protection (page 96) and Note 24.4 Contingent liabilities (page 110)

Supplementary notes to the accounting for noise-related costs are available in the section on Risk Management, Current risk situation, 6. Noise-related costs (annual report, pages 54-56)



Investments in property, plant and equipment

Key Audit Matter

Property, plant and equipment used for operations (assets in use) and assets under construction for operating activities together comprise 68% of total assets (CHF 2,756.1 million). As part of the masterplan and the strategic capital expenditure roadmap, Flughafen Zürich AG is investing in the maintenance, optimisation and expansion of its operational capacity and quality through large-scale investments and renovations. In 2016, investments in property, plant and equipment amounted to CHF 174.1 million.

In that regard the following risks exist:

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

Our response

We mainly performed the following audit procedures:

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



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

- I Accounting policies, Property, plant and equipment (page 67)
- III Notes, Note 8 Property, plant and equipment (pages 83 and 84)

Other Information in the Annual Report

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

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

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

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



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

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

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

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

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



Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

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

Martin Schaad
Licensed Audit Expert
Auditor in Charge

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

Samuel Seiler
Licensed Audit Expert

Zurich, 2 March 2017

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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FINANCIAL STATEMENTS

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

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INCOME STATEMENT

(FINANCIAL STATEMENTS ACCORDING TO THE SWISS CODE OF OBLIGATIONS)

| (CHF 1,000) | Notes | 2016 | 2015 |
|--|-------|------------------|----------------|
| Aviation revenue | | 620,402 | 597,389 |
| Non-aviation revenue | | 388,716 | 382,583 |
| Total revenue | | 1,009,118 | 979,972 |
| Personnel expenses | | -180,936 | -181,114 |
| Police and security | | -118,277 | -118,615 |
| Energy and waste | | -18,450 | -21,872 |
| Maintenance and material | | -35,174 | -40,789 |
| Other operating expenses | | -50,267 | -50,494 |
| Sales, marketing, administration | | -29,044 | -30,209 |
| Expenses for formal expropriations plus sound insulation and resident protection | | -7,432 | -6,217 |
| Deposits into renovation fund | | -5,500 | -5,500 |
| Other income and expenses | | 13,159 | 12,286 |
| Ordinary profit before depreciation and amortisation, interest and tax | | 577,197 | 537,448 |
| Depreciation and amortisation | | -223,249 | -208,817 |
| Ordinary profit before interest and tax | | 353,948 | 328,631 |
| Finance income | | 4,930 | 5,205 |
| Finance expenses | | -21,898 | -24,707 |
| Extraordinary result | (1) | 8,565 | 34,023 |
| Profit before tax | | 345,545 | 343,152 |
| Direct tax | | -73,233 | -75,458 |
| Profit for the year | | 272,312 | 267,694 |

BALANCE SHEET
(FINANCIAL STATEMENTS ACCORDING TO THE SWISS CODE OF OBLIGATIONS)

| (CHF 1,000) | Notes | 31.12.2016 | 31.12.2015 |
|--|-------|------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | | 490,301 | 366,920 |
| Current fixed-term deposits | | 0 | 50,000 |
| Current financial assets of Airport of Zurich Noise Fund | | 47,136 | 69,964 |
| Trade receivables | (2) | 110,795 | 99,151 |
| Other current receivables | | 4,912 | 5,541 |
| Inventories | | 11,019 | 10,041 |
| Prepaid expenses | (3) | 13,874 | 13,556 |
| Current assets | | 678,037 | 615,173 |
| Non-current fixed-term deposits | | 0 | 50,000 |
| Non-current financial assets of Airport of Zurich Noise Fund | | 308,594 | 257,373 |
| Investments | (4) | 11,512 | 11,512 |
| Non-current loans to associates | | 25,950 | 13,279 |
| Equity interest in co-ownership structure for "The Circle" | (5) | 139,034 | 88,630 |
| Property, plant and equipment | (6) | 2,666,449 | 2,702,520 |
| Intangible asset from right of formal expropriation | | 14,448 | 7,973 |
| Other intangible assets | | 9,503 | 5,991 |
| Non-current assets | | 3,175,490 | 3,137,278 |
| Total assets | | 3,853,527 | 3,752,451 |
| Liabilities and equity | | | |
| Trade payables | | 33,175 | 39,619 |
| Current financial liabilities | | 250,000 | 0 |
| Other current liabilities | (7) | 39,111 | 44,586 |
| Current provision for aircraft noise | (9) | 33,948 | 34,940 |
| Other current provisions | | 1,260 | 4,020 |
| Accruals and deferrals | | 94,378 | 54,113 |
| Current liabilities | | 451,872 | 177,278 |
| Non-current interest-bearing financial liabilities | (8) | 700,000 | 950,000 |
| Non-current provision for aircraft noise | (9) | 463,651 | 469,553 |
| Other non-current provisions | | 0 | 5,184 |
| Renovation fund | | 162,602 | 157,102 |
| Non-current liabilities | | 1,326,253 | 1,581,839 |
| Total liabilities | | 1,778,125 | 1,759,117 |
| Share capital | (10) | 307,019 | 307,019 |
| Legal capital reserves | | | |
| Capital contribution reserves | (10) | 411,744 | 509,980 |
| Legal retained earnings | | | |
| General legal retained earnings | | 42,370 | 42,370 |
| Voluntary retained earnings | | 109,470 | 109,168 |
| Available earnings | | | |
| Profit brought forward | | 933,342 | 757,745 |
| Profit for the year | | 272,312 | 267,694 |
| Treasury shares | (11) | -855 | -642 |
| Equity | | 2,075,402 | 1,993,334 |
| Total liabilities and equity | | 3,853,527 | 3,752,451 |

I ACCOUNTING PRINCIPLES

GENERAL REMARKS

The 2016 financial statements of Flughafen Zürich AG, based in Kloten, have been prepared in accordance with the provisions of Swiss accounting legislation.

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

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

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

REPORTING OF NOISE-RELATED COSTS IN THE FINANCIAL STATEMENTS

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

The reporting of noise-related costs in the financial statements is a complex matter requiring significant assumptions and estimates concerning the obligation to recognise provisions. This complexity is attributable to a large variety of relevant legal bases, unclear or pending court rulings and political debate. Flughafen Zürich AG has received a total of around 20,000 noise-related claims for compensation, of which nearly 10,000 were still pending at the end of 2016. Approximately 1,350 of these cases are currently being examined by the Swiss Federal Assessments Commission.

The rulings by the Swiss Federal Supreme Court in the first half of 2008 on fundamental issues related to formal expropriations enabled Flughafen Zürich AG to reliably estimate the total cost of compensation for formal expropriations for the first time, in spite of the remaining uncertainties regarding the accuracy of this estimate. With further rulings on 8 June 2010 and 9 December 2011, the Swiss Federal Supreme Court definitively set the cut-off date for the foreseeability of an eastern approach as 1 January 1961 and ruled definitively on the method used to calculate a decline in the market value of investment property. Based on these Swiss Federal Supreme Court rulings and other fundamental issues that have since been decided in a court of final instance, the company undertook a reappraisal of noise-related costs at the end of 2010 and 2011.

In the first half of 2016, the Swiss Federal Supreme Court handed down two rulings in test cases regarding claims for compensation due to eastern and southern approach routes. By answering important questions relating to how pending claims for compensation will be dealt with in a court of final instance, these rulings increased legal certainty significantly. These Swiss Federal Supreme Court rulings enabled Flughafen Zürich AG to undertake a reappraisal of the outstanding cost of compensation for formal expropriations at 30 June 2016.

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

As at 31 December 2016, Flughafen Zürich AG has recognised an intangible asset from the right of formal expropriation of CHF 14.4 million (2015: CHF 8.0 million) and a provision for aircraft noise of CHF 497.6 million in total (2015: CHF 504.5 million) in the financial statements according to the provisions of the Swiss Code of Obligations.

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

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

REVENUE RECOGNITION

Revenue is recognised by Flughafen Zürich AG when the service has been rendered, it is probable that the economic benefits will flow to the company and it can be measured reliably. In addition, the significant risks and rewards of ownership have to be transferred to the recipient of the service.

Revenue from fixed-rent tenancy agreements is recognised on a straight-line basis over the term of the agreement. Conditional rental payments (including turnover-based tenancy agreements) are recognised on an accrual basis based on the turnover generated by the lessee, in which case a minimum rent may be applied.

SHARE-BASED PAYMENTS

Where treasury shares are used for share-based payments for management and employees, the difference between the cost and the selling price on allocation of the shares represents personnel expense.

LEASES

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

INVENTORIES

Inventories mainly comprise 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.

FINANCIAL ASSETS OF AIRPORT OF ZURICH NOISE FUND

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at acquisition or production cost less accumulated depreciation and impairment. With the exception of land, items are depreciated over their estimated useful life using the straight-line method. If there are indications that they are impaired, the carrying amounts are reviewed and, if necessary, adjusted.

INTANGIBLE ASSETS

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

TREASURY SHARES

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

II NOTES TO THE FINANCIAL STATEMENTS

1 EXTRAORDINARY RESULT

| (CHF 1,000) | 2016 | 2015 |
|-----------------------------|--------------|---------------|
| Extraordinary income | 12,335 | 35,012 |
| Extraordinary expenses | -3,770 | -989 |
| Extraordinary result | 8,565 | 34,023 |

In the reporting period, "Extraordinary income" consists mainly of a payment of CHF 3.5 million in connection with the liquidation of Swissair in debt restructuring proceedings and an additional purchase price payment of CHF 7.3 million for the land for "The Circle", which fell due upon the initiation of the second phase of "The Circle" project. In the previous year, this item contained the gain from the first partial sale of the land for "The Circle" and the related establishment of the co-ownership structure amounting to CHF 34.6 million (see note 6, Property, plant and equipment).

Extraordinary expenses mainly include losses on asset disposals.

2 TRADE RECEIVABLES

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|--------------------------------------|----------------|---------------|
| Trade receivables from third parties | 111,501 | 98,571 |
| Impairment allowance | -1,282 | -981 |
| Trade receivables from investments | 576 | 1,561 |
| Total trade receivables | 110,795 | 99,151 |

Trade receivables from investments comprise amounts still due from Zurich Airport International AG (and in the previous year Bangalore International Airport Ltd.) for services rendered.

3 PREPAYMENTS AND ACCRUED INCOME

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|--|---------------|---------------|
| Prepaid expenses in respect of third parties | 13,826 | 13,044 |
| Prepaid expenses in respect of investments | 48 | 512 |
| Total prepaid expenses | 13,874 | 13,556 |

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

4 INVESTMENTS

| Company | Domicile | Share Capital | Stake held |
|---|-------------------|-------------------|------------|
| Zurich Airport International AG ¹⁾ | Kloten | CHF 100,000 | 100.0 % |
| Zurich Airport Latin America S.A. ²⁾ | Santiago de Chile | CLP 4,403 million | 100.0 % |
| Sociedad Concesionaria Aeropuerto Antofagasta S.A. ²⁾ | Santiago de Chile | CLP 1,352 million | 62.0 % |
| Sociedad Concesionaria Aeropuerto Iquique S.A. ²⁾ | Santiago de Chile | CLP 5,264 million | 49.0 % |
| Sociedade de Participação no Aeroporto de Confins S.A. ²⁾ | Belo Horizonte | BRL 323 million | 25.0 % |
| Concessionária do Aeroporto Internacional de Confins S.A. ²⁾ | Belo Horizonte | BRL 612 million | 12.3 % |
| Bangalore Airport International Ltd. ¹⁾ | Bengaluru | INR 3,864 million | 5.0 % |
| Administradora Unique IDC C.A. ¹⁾ | Porlamar | VEB 25 million | 49.5 % |

1) Direct investment.

2) Indirect investment.

The equity interests stated are also the share of the voting power in the investees listed. There are no changes in this regard compared with the previous year.

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

On 15 April 2016, Flughafen Zürich AG signed an agreement for the sale of its 5 % interest in Bangalore International Airport Ltd. (BIAL), the owner and operator of the international airport in the Indian city of Bengaluru. The agreed purchase price before tax is USD 48.9 million. Subject to the customary terms and conditions, the sale is expected to be completed in the first quarter of 2017.

In 2010, Flughafen Zürich AG and its consortium partner Unique IDC turned to the International Centre for Settlement of Investment Disputes (ICSID) in Washington D.C. in the matter of the airport expropriated in Venezuela (Isla de Margarita). This step is in compliance with the investment protection treaty between Venezuela, Switzerland and Chile. The ICSID reached its decision in November 2014, requiring the Bolivarian Republic of Venezuela to reimburse the consortium the costs incurred for the proceedings and project plus a compensation payment of around USD 19.5 million as well as interest incurred up until receipt of payment (around USD 17.1 million accrued as at 31 December 2016). Flughafen Zürich AG is entitled to 50 % of the total amount of the payments. Prior to the deadline set for 18 March 2015, Venezuela appealed to the ICSID to set aside the tribunal's decision on the grounds of an infringement of procedural rules. The ICSID has requested that Venezuela make an advanced payment on the costs for the proceedings. As Venezuela has not paid this advance, proceedings were stayed in early 2016, and there were no negotiations regarding the setting-aside of the tribunal's decision in the reporting period. After a stay of more than six months, the tribunal can discontinue the proceedings initiated by Venezuela. The value of these holdings was fully impaired in 2006.

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

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|---|----------------|---------------|
| Share of assets of co-ownership structure for "The Circle" | 140,652 | 94,318 |
| Share of liabilities of co-ownership structure for "The Circle" | -1,618 | -5,688 |
| Total equity interest in co-ownership structure for "The Circle" | 139,034 | 88,630 |

On 5 February 2015, Flughafen Zürich AG and Swiss Life AG notarised the purchase agreement for the share of land for "The Circle" and registered it for entry in the Land Register, thereby establishing the co-ownership structure between the two parties provided for in the financing agreements, in which Flughafen Zürich AG has a 51 % interest and Swiss Life AG a 49 % interest. Flughafen Zürich AG then transferred the project costs incurred for "The Circle" to date to the co-ownership structure (see note 6, Property, plant and equipment).

The co-ownership structure is responsible for the implementation (construction work beginning April 2015) and subsequent operation of "The Circle".

6 PROPERTY, PLANT AND EQUIPMENT

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|--|------------------|------------------|
| Land | 109,697 | 109,282 |
| Buildings and engineering structures | 2,329,221 | 2,289,024 |
| Projects in progress | 146,863 | 222,485 |
| Movables | 80,668 | 81,729 |
| Total property, plant and equipment | 2,666,449 | 2,702,520 |

In connection with the project "The Circle", 49% of the land was sold on a co-ownership basis to Swiss Life AG. In addition, Flughafen Zürich AG transferred the project costs incurred for "The Circle" up until that date to the co-ownership structure between the company and Swiss Life AG (see note 5, Equity interest in the co-ownership structure for "The Circle").

7 OTHER CURRENT LIABILITIES

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|---|---------------|---------------|
| Other current liabilities to third parties | 36,810 | 40,226 |
| Other current liabilities to employee pension funds | 2,301 | 4,360 |
| Total other current liabilities | 39,111 | 44,586 |

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

8 NON-CURRENT INTEREST-BEARING FINANCIAL LIABILITIES

| Financial liabilities | as at 31.12.2016 | | | | |
|--|------------------|-------------|---------------|--------------------|-----------------------|
| | Nominal Value | Duration | Interest rate | Early amortisation | Interest payment date |
| | (CHF 1,000) | | | | |
| Debenture | 300,000 | 2012 - 2020 | 1.250 % | no | 3.7. |
| Debenture | 400,000 | 2013 - 2023 | 1.500 % | no | 17.4. |
| Total non-current financial liabilities | 700,000 | | | | |

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

9 PROVISION FOR AIRCRAFT NOISE

| (CHF 1,000) | 2016 | 2015 |
|---|----------------|----------------|
| Balance as at 1 January | 504,493 | 513,914 |
| Increase in provision for aircraft noise | -6,894 | -9,421 |
| Balance as at 31 December | 497,599 | 504,493 |
| of which current (planned payment within 1 year) | 33,948 | 34,940 |
| of which non current (planned payment from 1 year on) | 463,651 | 469,553 |

The increase in the provision for aircraft noise comprises the balance of revenue from noise charges and noise-related costs and expenses.

| (CHF 1,000) | 2016 | 2015 |
|--|---------------|---------------|
| Revenue from noise charges | 11,680 | 10,773 |
| Costs for sound insulation and resident protection | -12,585 | -14,272 |
| Costs for formal expropriations | -682 | -425 |
| Noise-related operating costs | -3,276 | -3,137 |
| Amortisation of intangible asset from right of formal expropriation | -4,248 | -4,556 |
| Interest income and realised/unrealised gains/losses on financial assets of Airport of Zurich Noise Fund | 2,217 | 2,196 |
| Total increase of provision for aircraft noise | -6,894 | -9,421 |

For information on the reporting of noise-related data in the financial statements according to the Swiss Code of Obligations, see also Reporting of noise-related costs in the financial statements in the notes to the financial statements on pages 123 and 124.

10 EQUITY AND CAPITAL CONTRIBUTION RESERVES

A 5-for-1 share split was implemented on 6 May 2016. The share capital of Flughafen Zürich AG amounting to CHF 307,018,750 has, since this date, been redivided into 30,701,875 fully paid-up registered shares (previously 6,140,375 registered shares) with a par value of CHF 10.00 (previously CHF 50.00). At the reporting date, the capital contribution reserves amounted to CHF 411.7 million (2015: CHF 510.0 million).

11 TREASURY SHARES

| (Number of shares) | 2016 | 2015 |
|---|--------------|---------------|
| Balance as at 1 January ¹⁾ | 6,150 | 12,165 |
| Acquisitions (at applicable market price) | 5,206 | 1,540 |
| Allocation to management, employees and third parties ²⁾ | -5,643 | -7,555 |
| Balance as at 31 December | 5,713 | 6,150 |

1) A 5-for-1 share split was implemented on 6 May 2016 (see note 10, Equity and capital contribution reserves). For the purpose of comparison, the previous year's figures have been adjusted accordingly.

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

In the reporting period, 5,206 registered shares were purchased at the market price. Treasury shares are distributed to members of the Management Board and other members of management under the bonus programme. They are used primarily for this participation programme. In addition, Flughafen Zürich AG gives those employees who have completed their first year of service a one-off gift in the form of one share free of charge.

12 OFF-BALANCE SHEET LEASE OBLIGATIONS

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

| (CHF 1,000) | 31.12.2016 | 31.12.2015 |
|---|--------------|---------------|
| Due within 1 year | 1,887 | 19,817 |
| Due between 1 and 5 years | 4,980 | 6,867 |
| Due in more than 5 years | 0 | 0 |
| Total unrecognised finance lease liabilities | 6,867 | 26,684 |

13 CONTINGENT LIABILITIES

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

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

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

14 NET REVERSAL OF HIDDEN RESERVES

In the reporting period, hidden reserves of CHF 7.5 million were reversed. Owing to the different methods of reporting noise-related data in the consolidated financial statements in accordance with IFRS and in these financial statements under the Code of Obligations (see also Reporting of noise-related costs in the financial statements in the notes to the financial statements on pages 123 and 124), hidden reserves of CHF 100.0 million were reversed in the previous year. This corresponds to the nominal amount of the increase in provisions for sound insulation and resident protection recognised in profit or loss in the consolidated financial statements due to the expansion of the sound insulation programme. In the single-entity statements this amount was already included in the existing provision for aircraft noise (note 9).

15 MAJOR SHAREHOLDERS

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

| | 2016 | 2015 |
|---|---------|---------|
| Canton of Zurich | 33.33 % | 33.33 % |
| City of Zurich (including pension fund of the City of Zurich) | 5.05 % | 5.05 % |

16 SHARES HELD BY THE BOARD OF DIRECTORS

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

| Name | Function | Number of shares as at | Number of shares as at ³⁾ |
|----------------------------------|--|---------------------------|---|
| | | 31.12.2016 | 31.12.2015 |
| Andreas Schmid | Chairman | 20 | 20 |
| Vincent Albers ¹⁾ | Member | 350 | 0 |
| Guglielmo L. Brentel | Member | 174 | 0 |
| Corine Mauch | Member | 0 | 0 |
| Eveline Saupper ¹⁾ | Vice Chairwoman | 675 | 675 |
| Kaspar Schiller | Member; Chairman of the Nomination & Compensation Com. | 65 | 65 |
| Ulrik Svensson | Member; Chairman of the Audit & Finance Committee | 0 | 0 |
| Carmen Walker Späh ²⁾ | Member; Chairwoman of the Public Affairs Committee | 5 | 5 |
| Total | | 1,289 | 765 |

1) Since 28 April 2015.

2) Since 1 July 2015.

3) A 5-for-1 share split was implemented on 6 May 2016 (see note 10, Equity and capital contribution reserves). For the purpose of comparison, the previous year's figures have been adjusted accordingly.

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

As part of the performance-related remuneration awarded to members of the Management Board and other members of management, 1,630 shares (2015: 2,545 shares) worth CHF 289,162 (2015: CHF 389,894) were distributed to members of the Management Board and 3,705 shares (2015: 4,365 shares) worth CHF 657,267 (2015: CHF 668,718) to other members of management.

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

| Name | Number of shares as at | Number of shares as at ³⁾ |
|--------------------------------|---------------------------|---|
| | 31.12.2016 | 31.12.2015 |
| Stephan Widrig | 3,025 | 4,665 |
| Stefan Conrad | 2,925 | 2,620 |
| Stefan Gross ¹⁾ | 0 | n/a |
| Daniel Scheifele ²⁾ | 0 | n/a |
| Daniel Schmucki | 5,950 | 5,645 |
| Total | 11,900 | 12,930 |

1) Since 1 February 2016.

2) Since 1 April 2016.

3) A 5-for-1 share split was implemented on 6 May 2016 (see note 10, Equity and capital contribution reserves). For the purpose of comparison, the previous year's figures have been adjusted accordingly.

In addition, Flughafen Zürich AG gives those employees who have completed their first year of service a one-off gift in the form of one share free of charge. In the reporting period, 302 shares (2015: 590 shares) worth CHF 49,055 (2015: CHF 85,918) were handed out in this context.

18 SIGNIFICANT EVENTS AFTER THE REPORTING DATE

The Board of Directors authorised the 2016 financial statements according to the provisions of the Swiss Code of Obligations (CO) for issue on 2 March 2017. These also have to be approved by the General Meeting of Shareholders.

No events occurred between 31 December 2016 and the date on which the financial statements according to the provisions of the Swiss Code of Obligations were authorised for issue by the Board of Directors which would require an adjustment to the carrying amounts of the assets and liabilities in the financial statements according to the provisions of the Swiss Code of Obligations or which would have to be disclosed here.

PROPOSAL FOR THE DISTRIBUTION OF AVAILABLE EARNINGS

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

| | |
|---|------------------|
| (CHF 1,000) | |
| Profit for the year | 272,312 |
| Profit brought forward | 933,342 |
| Available earnings | 1,205,654 |
| Allocation to the legal retained earnings ¹⁾ | 0 |
| Payment of an ordinary dividend of CHF 3.20 (gross) ²⁾ | 98,246 |
| To be carried forward | 1,107,408 |

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

| | |
|--|----------------|
| (CHF 1,000) | |
| Capital contribution reserves before distribution | 411,744 |
| Transfer from capital contribution reserves to voluntary retained earnings and payment of an additional dividend of CHF 3.20 (gross) ²⁾ | 98,246 |
| Capital contribution reserves after distribution | 313,498 |

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



Statutory Auditor's Report

To the General Meeting of Flughafen Zürich AG, Kloten

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Flughafen Zürich AG, which comprise the balance sheet as at 31 December 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 121 to 132) for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



Provision for aircraft noise, Intangible asset from right of formal expropriation



Investments in property, plant and equipment

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



Provision for aircraft noise, Intangible asset from right of formal expropriation

Key Audit Matter

As at 31 December 2016, Flughafen Zürich AG has recognised provisions for aircraft noise amounting to CHF 497.6 million. Furthermore, an intangible asset from the right of formal expropriation has been recognised in the amount of CHF 14.4 million as at that date.

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

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

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

Our response

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

- Assessment of the obligation to recognise a provision
- Evaluation of the calculation base and the parameters used for measuring the provision; assessment of underlying assumptions and comparison against available internal and external data
- Recalculation of the cost calculation on a sample basis
- Assessment of the reasonableness of the estimates by back-testing historical estimates to actual payments
- Evaluation of design, implementation and effectiveness of controls embedded in internal processes based on a sample in relation to payments made for formal expropriations as well as sound insulation and resident protection measures
- Analysis of developments in ongoing legal proceedings and evaluation of significant leading questions and their assessment by the Company's management
- Analysis of quarterly summaries of ongoing legal proceedings and semi-annual noise report submitted to the Company's management and the Board of Directors as well as in-depth evaluation of consequential questions
- Inspection whether current cost estimates are adjusted upon development in ongoing proceedings and issuance of further decisions by the court of final appeal and corresponding adjustments are made in accordance with the respective accounting policies

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

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

We note that, as discussed in the notes to the financial statements, the uncertainties and risks with regard to noise-related costs could have significant effects on the



nature and scope of the business activities and thus on the financial position, the results of operations and the cash flows of Flughafen Zürich AG. At present, such effects cannot be conclusively determined.

For further information on the provision for aircraft noise and the intangible asset from right of formal expropriation refer to:

- I Accounting principles, Reporting of noise-related costs in the financial statements (pages 123 and 124)
- II Notes to the financial statements, Note 9 Provision for aircraft noise (page 129)

Supplementary notes to the accounting for noise-related costs are available in the section on Risk Management, Current risk situation, 6. Noise-related costs (annual report, pages 54-56)



Investments in property, plant and equipment

Key Audit Matter

Property, plant and equipment used for operations (assets in use) and assets under construction for operating activities together comprise 69% of total assets (CHF 2,666.4 million). As part of the masterplan and the strategic capital expenditure roadmap, Flughafen Zürich AG is investing in the maintenance, optimisation and expansion of its operational capacity and quality through large-scale investments and renovations. In 2016, investments in property, plant and equipment amounted to CHF 174.1 million.

In that regard the following risks exist:

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

Our response

We mainly performed the following audit procedures:

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



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

- I Accounting principles, Property, plant and equipment (page 125)
- II Notes to the financial statements, Note 6 Property, plant and equipment (page 128)

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

A handwritten signature in black ink, appearing to read 'M. Schaad'.

Martin Schaad
Licensed Audit Expert
Auditor in Charge

A handwritten signature in black ink, appearing to read 'S. Seiler'.

Samuel Seiler
Licensed Audit Expert

Zurich, 2 March 2017

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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2017 FINANCIAL CALENDAR

FINANCIAL REPORTING DATES

| | |
|------------|--------------------------------------|
| 06.03.2017 | Publication of 2016 annual results |
| 20.04.2017 | 2017 General Meeting of Shareholders |
| 29.08.2017 | Publication of 2017 interim results |
| 19.04.2018 | 2018 General Meeting of Shareholders |

TRAFFIC AND COMMERCIAL FIGURES

| | |
|------------|----------------------------|
| 13.03.2017 | Key Figures February 2017 |
| 12.04.2017 | Key Figures March 2017 |
| 11.05.2017 | Key Figures April 2017 |
| 13.06.2017 | Key Figures May 2017 |
| 12.07.2017 | Key Figures June 2017 |
| 14.08.2017 | Key Figures July 2017 |
| 13.09.2017 | Key Figures August 2017 |
| 12.10.2017 | Key Figures September 2017 |
| 13.11.2017 | Key Figures October 2017 |
| 12.12.2017 | Key Figures November 2017 |
| 15.01.2018 | Key Figures December 2017 |

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FURTHER INFORMATION

Other results and financial information:
www.zurich-airport.com/investorrelations

2016 ANNUAL REPORT

The 2016 Annual Report of Flughafen Zürich AG is available in English and German. The German version is binding.

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