

Regulations for Airport of Zurich Noise Fund (AZNF)

Zurich Airport, 31 August 2006

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1. Introduction

This document replaces the existing set of regulations dated 26 May 2004, which needed to be revised since, in accordance with a legal expertise¹ prepared on behalf of the Swiss Federal Office for Civil Aviation (FOCA), the auditors stipulated that revenue from noise-related charges and costs associated with aircraft noise are to be recognised in the income statement of Unique (Flughafen Zürich AG) with effect from 1 January 2006². The regulations of the AZNF also had to be revised in order to incorporate the solution reached with the Canton of Zurich in March 2006 for reducing the level of risk associated with aircraft noise³.

In material terms (purpose and objectives of the AZNF, information flow, AZNF Committee), the revised regulations do not contain any changes versus the previous version.

2. Concept of the AZNF

Costs relating to aircraft noise (noise-related costs) are classified as operating costs of Unique (Flughafen Zürich AG). Noise-related charges form an integral part of the company's overall revenue.

Noise-related costs comprise costs relating to sound insulation measures, costs for formal expropriations and all other operating costs arising in association with aircraft noise (cf. section 4.1.).

Whereas it is relatively easy to estimate and budget costs for sound insulation measures and operating costs, to date it is very difficult to assess the potential costs for formal expropriations in terms of both amount and time within which they will arise, but they could run into several hundred millions of Swiss francs.

The specification of noise-related charges is based on the following principles:

- Noise-related charges are intended to cover all costs that arise in association with aircraft noise for the period during which these costs (especially for formal expropriations) are incurred.
- The following three objectives have to be taken into account for the purpose of specifying noise-related charges:
 - Sharp fluctuations at the level of any necessary charges should be avoided
 - The competitiveness of Zurich Airport must be preserved
 - Any financing gap that may arise (i.e. if the accumulated revenue from any noise-related charges should be lower than the accumulated costs) may not be greater than the company's financing capacity.

¹ Report on issues relating to the independence and outsourcing of the Airport of Zurich Noise Fund of Flughafen Zürich AG, Samuel Keller (attorney-at-law), 5 December 2005.

² This new accounting policy resulted in the need for a restatement of the accounts for the prior years as well.

³ The solution is described in detail in the 2005 Annual Report of Unique (Flughafen Zürich AG).

In accordance with the above principles, in the first years following the establishment of the AZNF (1.1.2000), the accumulated noise related revenue has been and will be for some more time higher than the incurred costs. During this initial stage, from a charging policy point of view, the revenue from these charges can be considered as pre-financing of future costs.

Unique (Flughafen Zürich AG) discloses the use of noise-related charges in a transparent manner towards the general public, the payers of the noise-related charges as well as to the relevant authorities.

Disclosure towards **the general public** is effected via the Interim Report and the Annual Report of Unique (Flughafen Zürich AG), in which the topic of aircraft noise is reported in a separate (sub)-section of the segmental reporting as well as in a separate presentation of the financial statement of the Airport of Zurich Noise Fund (cf. section 4.3.).

Furthermore, details are disclosed to a **selected circle of the payers of the noise-related charges** and **representatives of the relevant authorities** that extend beyond the transparency of the information provided in both the Interim Report and Annual Report (cf. section 5, Airport of Zurich Noise Fund Committee).

3. Solution reached with the Canton of Zurich

Together with the Canton of Zurich, a solution was found on 6 March 2006 by means of which the risks for Unique (Flughafen Zürich AG) associated with aircraft noise can be sustainably reduced.

In the event that noise-related costs should exceed the threshold of 1.1 billion Swiss francs, the Canton of Zurich will assume the prefinancing of all “old” noise-related liabilities. These liabilities concern potential compensation for formal expropriations, the grounds for which arose prior to 1 June 2001.

Should this prefinancing enter into effect, the Canton of Zurich is to receive a proportion of the existing liquid assets in the AZNF (cf. section 4.3.), plus a share of the current revenue from noise-related charges.

The reporting and presentation of the noise-related revenue or corresponding costs for formal expropriations managed by the Canton of Zurich do not form an integral part of these regulations.

4. Operation of the fund

4.1. Definition of noise-related costs

The term “noise-related costs” refers to all costs arising for the company in association with aircraft noise, as listed below:

- Costs for the sound insulation programme (“2010 Programme”)
- Costs for formal expropriations

- Other external expenses in connection with noise (e.g. costs for school outings due to closed school grounds, as incurred in 2000)
- Internal expenses relating to aircraft noise, including associated personnel costs, technical equipment, noise measurement, office space, costs for legal advice
- Any external expenses relating to aircraft noise (legal advice, consulting, studies and experts' reports, costs for information and PR activities, noise costs charged by the Canton or any other authority)
- Expenses in connection with wake turbulence and flyover altitudes, special expenses for vortex protection
- Costs related to the use of fixed assets: a variety of fixed assets are used in connection with noise protection and noise measurement (e.g. noise measurement systems, vehicles, IT equipment), which are owned by Unique (Flughafen Zürich AG) and "let" to the AZNF. The costs of these fixed assets are calculated on the basis of required depreciation and applying a rate of 7% for the capital employed.

Unique (Flughafen Zürich AG) reserves the right to cover any necessary additional environmental costs (with related revenue) through this fund at a later point in time, if appropriate.

However, if Unique (Flughafen Zürich AG) wishes to add cost items to the above list, the company is obliged to consult the AZNF Committee in advance.

In addition, any such changes require the prior written consent of the Canton of Zurich in accordance with the "supplementary agreement to the merger agreement" dated 8 March 2006, which includes this list as an appendix.

4.2. *Specification of noise-related charges*

The following noise-related charges applied at the time these revised regulations were formulated:

- Noise surcharge on landing charge
- Noise surcharge on passenger charge
- Additional night-flight noise surcharge for take-off
- Additional night-flight noise surcharge for landing

Noise-related charges are specified on the basis of current estimates of remaining anticipated noise-related costs and the time they are expected to be incurred, taking in account the objectives cited in section 2 above.

The goal is to be able to fully refinance the anticipated noise-related costs by the end of 2015 via noise-related charge revenue. The duration of the refinancing process may be extended to 2020 if this appears appropriate for competition or other reasons, provided the Canton of Zurich gives its consent.

In principle, any adjustments to noise-related charges shall be effected via the "noise surcharge on passenger charge".

Independently of financing considerations concerning noise-related costs, it is conceivable that, in the next few years, it may be necessary to modify the noise surcharge on the landing charge or the night-flight surcharge for take-offs and landings, either due to technological developments or on the basis of political deliberations.

In the “Supplementary agreement to the merger agreement” concluded with the Canton of Zurich on 8 March 2006 it was assumed that any increases would be effected solely via the noise surcharge on the passenger charge. The necessary noise surcharge on the passenger charge was specified as follows on the basis of the anticipated costs and anticipated traffic assumptions:

Estimated noise-related costs (total)	Refinancing up to 2015 (base case)		Refinancing up to 2020	
	Noise surcharge on passenger fee		Noise surcharge on passenger fee	
	with hub	without hub	with hub	without hub
CHF in millions	CHF	CHF	CHF	CHF
500	1.00	1.50	0.50	0.50
600	2.00	3.00	1.00	1.50
700	3.50	4.50	2.00	2.50
800	4.50	6.00	2.50	3.50
900	5.50	7.00	3.50	4.50
1'000	7.00	8.50	4.00	5.50
1'100	8.00	10.00	5.00	6.50
1'200	9.00	11.50	5.50	7.50
1'300	10.00	13.00	6.00	9.00
1'400	11.00	14.50	7.00	10.00
1'500	12.00	16.00	7.50	11.00

The years 2015 or 2020, respectively, the refinancing will be concluded. At that time the AZNF can be dissolved. The remaining capital can be used for calculation purpose and can change depending on the ongoing pay out pattern, but will be subject to the approval of the Canton of Zurich.

In accordance with the Swiss Federal Ordinance on Civil Aviation Infrastructure, any modification of charges requires the initiation of a consultation procedure with the airlines.

4.3. Presentation of the Airport of Zurich Noise Fund in the accounts of Unique (Flughafen Zürich AG)

The Airport of Zurich Noise Fund is a liquidity-based fund that does not take the form of any type of legal entity. The statement for the fund presents the accumulated surplus or short-fall as of balance sheet date arising from noise charges, less expenses for formal expropriations, sound insulation measures and operating costs. Its presentation is independent of the formal accounting of the company.

The key data of the fund statement are disclosed to **the general public** as note to the Interim Report / Annual Report of Unique (Flughafen Zürich AG) as follows (sample statement only – the data shown below are fictitious):

		CHF thousand
Airport of Zurich Noise Fund as of 1 January		118,341
Noise-related charges (passenger fees)	44,209	
Noise-related charges (landing fees)	6,125	50,334
Costs for sound insulation		-10,963
Costs for formal expropriations		0,000
Other costs to third parties		0,000
Net result before operating and imputed costs		157,712
Noise-related operating costs	-4,136	
Imputed interest (up to 10.6.2006)	7,197	
Income from AZNF investments	0,500	3,561
Airport of Zurich Noise Fund as of 31 December		161,273
Composition of fund:		
Cash and Cash equivalents AZNF		20,000
Financial Assets AZNF		140,000
Receivables- / Liabilities Flughafen Zürich AG		1,273
Airport of Zurich Noise Fund as of 31 December		161,273
Average return on invested funds		1.883%

The data disclosed to **members of the Airport of Zurich Noise Fund Committee** are even more detailed, and include details for specific cost categories and cost components in the form of:

- An annual budget
- A detailed annual statement
- Interim (six-monthly) reports

The AZNF statement is also examined by the external auditors, who prepare a report of the “special purpose” auditors. The wording of this report is as follows:

“In our opinion, the accounting records and financial statements comply with Swiss law and the Regulations of the AZNF. We confirm that the external revenues and external costs as presented in the AZNF are consistent with the official accounts of Unique (Flughafen Zürich AG) and the basis for the charge of internal costs is consistent with the internal cost accounting of Unique (Flughafen Zürich AG).”

The auditors’ report is submitted to the members of the AZNF Committee.

4.4. Use of surplus funds

In the event that the fund statement should show an accumulated surplus, the corresponding amounts are transferred to a separate account. The aim here is to act in accor-

dance with the concept of “pre-financing”. Transferred funds are invested by professional investment advisers on the basis of a conservative strategy with an orientation on the money market.

4.5. *Covering any financing gap that may arise*

In the event that, over a certain timeframe, the accumulated costs should be higher than the accumulated income (i.e. a financing gap should arise), Unique (Flughafen Zürich AG) has access to a committed credit line in the amount of 200 million Swiss francs. This credit facility is intended solely for the purpose of covering any such financing gap, and is available until 2015. The costs relating to the provision of this credit line are charged to the fund statement and shown under operating costs. Should the funds in the credit line be insufficient to cover any financing gap that may arise, other funds have to be drawn from the company and used for financing purposes.

Any future costs arising in association with the bridging of a financing gap will be charged to the fund statement.

4.6. *Dissolution of the Airport of Zurich Noise Fund*

The AZNF will be dissolved after all formal expropriations and noise prevention measures at Zurich Airport have been concluded.

The level of noise-related charges is to be calculated so that the balance of the AZNF at the time of its dissolution is zero, i.e. the accumulated revenue from noise-related charges covers the accumulated noise-related costs.

In the event that the balance of the fund should be positive (i.e. more accumulated revenue, including interest, than accumulated costs), the amount concerned may not be used to increase the profit of the company, but must be used in appropriate ways (e.g. by collecting lower charges over a certain period) for the benefit of the payers of the noise-related charges who have contributed to the positive balance.

It is clearly understood that the payers of the noise related charges may not make any direct claims on such a balance.

This rule also applies in the event that the government or any other party should decide to cover the costs in full or in part, or even refund some of the funds that have already been spent.

5. The Airport of Zurich Noise Fund Committee

The Airport of Zurich Noise Fund Committee is an advisory and information body only.

- It should convene at least twice a year
- It should act as an advisory and information body for Zurich Airport in all areas relating to noise
- It is entitled to consult all records of the AZNF in detail, and thus to inspect its accounts
- It is entitled to participate in a consultation process concerning any proposed adjustments of charges, and if necessary, the addition of items to be covered by the fund
- It receives information on a periodical basis from the accounting division of Unique (Flughafen Zürich AG) relating to the budget and annual financial statements.

Minutes must be taken of all meetings of the Committee.

The Committee comprises the following members:

- A representative of the home carrier (Swiss International Air Lines)
- A representative of BAR (Board of Airlines Representatives)
- A representative of the aviation marketing section of Unique (Flughafen Zürich AG)
- The head of the noise management of Unique (Flughafen Zürich AG)
- the Chief Financial Officer of Unique (Flughafen Zürich AG)

The Committee also comprises the following members as observers:

- A representative of the economic affairs division of the Swiss Federal Office for Civil Aviation (FOCA)
- A representative of the Canton of Zurich (note: not yet formally approved by the Canton)

The Chief Financial Officer of Unique (Flughafen Zürich AG) is the chairman of the Committee.

The Airport of Zurich Noise Fund Committee does not have any rights or obligations other than those cited above.

All decisions concerning noise-related revenue and costs are taken by Unique (Flughafen Zürich AG) on the basis of applicable internal regulations, as long as these do not conflict in material terms with these regulations.

6. Purpose and status of these regulations

This set of regulations is an internal document of Unique (Flughafen Zürich AG). Its purpose is as follows:

- To regulate the handling of noise-related revenue and costs
- To regulate the activities of the Airport of Zurich Noise Fund Committee

It is in no way legally binding for other entities.

This document was approved by the Management Board of Unique (Flughafen Zürich AG) on 27 August 2006 following consultation with the Airport of Zurich Noise Fund Committee.

Zurich Airport, 31 August 2006 /C/SPA