

Swiss International Air Lines Ltd.
Half-yearly Report, January–June 2004

Swiss International Air Lines (Group), Basel

Introductory remarks by Christoph Franz, President and Chief Executive Officer

Dear shareholder,

After a truly turbulent 2003 and its own radical restructuring, SWISS is now in substantially better health. But we still face sizeable challenges on our road to profitability.

When I decided to accept the post of SWISS CEO this spring, I did so with the conviction that our company has genuine prospects of sustainable market success. And I will be doing my utmost, together with our entire workforce, to ensure that SWISS delivers its best possible performance.

In this respect, I would like to share some thoughts with you on the present situation:

Difficult parameters are part of our business

The overall conditions within the air transport sector are tough. What we must ensure is that we react swiftly and flexibly to change, and constantly realign ourselves to new business requirements. Companies that fail to respond in time will simply disappear. We are determined that this will not happen to SWISS.

The foundation for our turnaround has been laid

The radical restructuring upon which SWISS embarked in summer 2003 left virtually no stone unturned. Cost-cutting possibilities have been identified, supplier agreements have been re-negotiated and processes have been appraised and improved throughout our organisation. With our route network, a stronger focus has been placed upon maintaining sustainably profitable and strategically important connections.

In SWISS in Europe, we have established a new product which offers customers lower fares, more flexibility in their individual travel planning and greater pricing transparency.

Our results for the first half of 2004 show the first fruits of these endeavours. They also show, however, that it will take further sizeable efforts on our part to make SWISS a profitable business undertaking.

SWISS a year on from its restructuring announcement

SWISS posted a loss from operating activities (EBIT) of CHF 19 million for the first half of 2004. The result compares to an operating loss of CHF 346 million which we sustained for the first half of the previous year, and an operating loss of CHF 433 million for the first half of 2002.

The second quarter of 2004 actually produced a profit from operating activities of CHF 50 million. But this second-quarter result includes income of CHF 68 million deriving from the settlement of a legal dispute.

Net of this non-recurring item, a second-quarter loss from operating activities of CHF 18 million would have been sustained. Needless to say, while it is a clear improvement on the CHF 147 million operating loss that we reported for the second quarter of 2003, this is a result with which we are still far from satisfied.

In view of these developments, SWISS was also required to announce in June that it might not achieve its original objective of recording a breakeven EBIT result for 2004 as a whole.

Our turnaround is being negatively influenced by insufficient reductions in aircraft maintenance costs and by the unexpectedly high price of aviation fuel, which added some CHF 29 million to our operating expenses for the first-half period.

Efforts to exploit further improvement potential

In our ongoing endeavours to enhance our bottom-line results, we have now appointed a new internal project group to identify further opportunities to raise revenues and reduce costs. The new project group is called CIS (Continuous Improvement SWISS) and reports directly to the Management Board.

Our productivity must be further increased throughout our organisation in order to lower our unit costs. We are also subjecting every one of our routes, particularly in Europe, to the closest of scrutiny in terms of their current results and future earnings potential; and we are doing so at our Basel and Geneva bases and at our Zurich hub.

SWISS will remain a network carrier offering a sizeable range of intercontinental services. Our short-haul network should continue to provide convenient direct connections to and from Europe's major cities, while also generating additional connecting traffic in Zurich for our long-haul flights.

Ladies and gentlemen, in the first six months of 2004, over 25 000 passengers a day put their confidence in SWISS. The SWISS brand is associated with positive values all over the world; and our SWISS product is held in similarly high regard, as is evidenced by the numerous awards and distinctions that we continue to receive.

Our aim now must be to make SWISS a success story in financial terms, too. It is an objective which I, for one, am convinced we will achieve.



Dr. Christoph Franz

President and
Chief Executive Officer

Swiss International Air Lines (Group), Basel Financial results for the first half of 2004

Loss from operating activities (EBIT) of CHF 19 million

With total consolidated income from operating activities amounting to CHF 1 768 million (compared to CHF 2 098 million for the prior-year period), SWISS posted a loss from operating activities (EBIT) of CHF 19 million for the first half of 2004. The result compares to a CHF 346 million loss from operating activities sustained for the prior-year period.

SWISS's first-half results for 2004 are thus a sizeable improvement on the same period last year. Indeed, the second quarter produced a profit from operating activities of CHF 50 million. This result is due, however, to the release of CHF 68 million in provisions no longer required, following the settlement of a protracted legal case. Net of this non-recurring income, the second quarter would have produced a loss from operating activities of CHF 18 million. This would still, however, have been a CHF 129 million improvement on the CHF 147 million operating loss posted for the second quarter of 2003.

Following the implementation of its corporate restructuring programme, SWISS's CHF 1 855 million in total operating expenses for the first half of 2004 were a 24.1-per-cent improvement on the CHF 2 444 million posted for the prior-year period. Total income from operating activities also declined as a result of the substantially smaller route network, but did so by a more modest 15.7 per cent.

The unexpectedly high cost of aviation fuel is having an adverse impact on costs and business results. Higher kerosene prices added some CHF 29 million to operating expenses in the first six months of 2004 alone.

Depreciation and amortisation for the period rose CHF 32 million to CHF 148 million. The increase is due partly to the introduction of the new Airbus A340 aircraft fleet and

the correspondingly higher depreciation which this entails, and partly to the fact that various assets were capitalised in the second half of 2003, resulting in higher depreciation requirements for property, plant and equipment.

The CHF 139 million shown under other operating expenses must be seen against the release of provisions no longer required following the legal settlement mentioned above. But the decrease in other operating expenses without this one-off effect would still have been a sizeable CHF 129 million, compared to the prior year. Most of the savings achieved under this item were effected in the areas of aircraft operating leases and insurance, IT, rental and property expenses.

With lower interest income and a more modest net positive impact of currency movements, financial income declined CHF 26 million from its prior-year level to CHF 13 million.

The consolidated net loss for the first half of 2004 after the financial result, income taxes and Group items amounted to CHF 33 million, which compares to a consolidated net loss of CHF 333 million for the prior-year period.

Cash and cash equivalents of CHF 353 million

The consolidated balance sheet showed cash and cash equivalents of CHF 353 million and fixed-term deposits of CHF 5 million on June 30, 2004.

Cash and cash equivalents thus declined by CHF 61 million from their level at the end of the first quarter of 2004, and by CHF 150 million from their level at the end of 2003.

It should also be mentioned here that the CHF 68 million deriving from the settlement of the legal case mentioned above are not included in the cash and cash

equivalents on June 30, 2004. These funds will appear as cash in the cash flow statement for the third quarter of the year.

Net cash used in operating activities in the first half of 2004 amounted to CHF 7 million, a CHF 230 million improvement on its prior-year equivalent.

Net cash used in investing activities totalled CHF 37 million in the first half-year. Some CHF 58 million was invested during the period in interiors, rotatable spares and consumables for the new Airbus A340 aircraft fleet. This amount was offset by a reduction in cash deposits following the return of other aircraft to their owners.

Net cash used in financing activities in the first half of 2004 amounted to CHF 108 million. The net amount includes cash outflows of CHF 78 million in amortisation payments for aircraft finance leasing liabilities, CHF 52 million to repay loans and CHF 28 million spent on ordinary interest payments on finance leasing and other liabilities. The total cash outflow was offset by an increase in cash and cash equivalents resulting from the use in full of a CHF 50 million credit facility secured with Barclays Bank on March 16, 2004.

Cash and cash equivalents have developed more favourably than originally expected. Additional liquidity should both cushion the company from the adverse effects of any unforeseen events and enable it to exploit new business opportunities. Therefore, SWISS continues to negotiate with the major Swiss banks and further international financial institutions with the aim of securing additional cash.

Shareholders' equity

Following incorporation of the loss carried forward from the previous year, Group shareholders' equity amounted to CHF 982 million on

Swiss International Air Lines (Group), Basel Financial results for the first half of 2004

June 30, 2004, giving a balance sheet equity ratio of 27.5 per cent.

The voters attending the Ordinary General Meeting of May 6, 2004 approved a reduction in the nominal value of SWISS shares from CHF 32 to CHF 18 per share. The share capital of Swiss International Air Lines Ltd. was correspondingly reduced by CHF 737 million, from CHF 1 685 million to CHF 948 million. The loss brought forward from the previous year was reduced on the balance sheet by the same amount. This capital reduction is an action envisaged under the Swiss Code of Obligations to help restructure a corporate balance sheet. It has no effect on the company's intrinsic value, and the total amount of shareholders' equity remains unchanged.

SWISS and the three dozen of its shareholders who have committed themselves to a "lock-up" agreement until August 31, 2004 are currently discussing a possible extension thereof.

Swiss International Air Lines (Group), Basel

Business facts and figures

SWISS destinations

SWISS provides scheduled air services to 70 points worldwide in its 2004 summer timetable. The European network extends to 42 destinations in 22 countries, the intercontinental network to 28 destinations in 20 countries. The SWISS charter business offers charter flights to various vacation destinations in Europe and North Africa. Ethnic and special charters are of growing importance here.

Focus on bilateral partnerships

In addition to the destinations served by its own aircraft, SWISS provides services to numerous destinations under codeshare agreements with various partners. Existing agreements were supplemented on June 1 by joint services with Denim Airways on the Zurich-Venice and Zurich-Florence routes.

After extensive negotiations, SWISS decided at the beginning of June not to integrate its Swiss TravelClub frequent flyer programme as originally planned into British Airways' Executive Club programme. The decision – which was taken for strategic reasons – meant that the bilateral agreement provisionally concluded with British Airways could not be put into effect and that SWISS would therefore not join the **oneworld** alliance.

This will not affect SWISS's bilateral commercial agreements with the other alliance members. SWISS thus continues to offer its customers an extensive network of air services and connections covering all six continents. In the Swiss TravelClub, SWISS also retains an attractive frequent flyer programme for its customers.

Improved load factors

SWISS performed a total of 70 612 flights and carried some 4.6 million passengers in the first six months of 2004. The modifications effected to the SWISS route network and a

general industrywide market recovery both had a positive impact on the load factors recorded for the first half-year. SWISS posted a systemwide seat load factor of 73.4 per cent for the first half of 2004, a 4.7-point improvement on the same period last year. Systemwide capacity, measured in available seat kilometres, was 20.1 per cent lower than for the prior-year period. By comparison, the decline in systemwide traffic volume, in revenue passenger kilometres, was stemmed to 14.6 per cent.

Seat load factor for the first six months on SWISS's European services stood at 60.3 per cent, an increase of 5.6 points. Seat load factor on intercontinental services rose 3.8 percentage points to a welcome 79.1 per cent. Yield on European services was 8.3 per cent below its prior-year levels, while the yield on intercontinental routes was a 1.8-per-cent improvement on the same period last year.

The business of Swiss WorldCargo showed positive trends for the first half-year. Cargo load factor for the period totalled 85.8 per cent, a 1.8-point improvement on the prior-year period. Despite the reductions in cargo capacity resulting from the downsizing of the SWISS route network, Swiss WorldCargo remains a sustainably profitable undertaking with good prospects of medium-to-long-term growth.

High reliability, punctuality less than satisfactory

SWISS operated 98.97 per cent of its published flights in the first half of 2004. The performance is a further improvement of 0.75 percentage points on the already-high reliability recorded for the same period last year.

SWISS's punctuality at Zurich remains less than satisfactory. The underperformance is due mainly to tighter restrictions by the German authorities on approaches to the

airport from the north and the less-than-ideal utilisation of airport capacity owing to restrictions on the number of aircraft movements during key departure and arrival periods.

An advanced long-haul fleet

The SWISS Group operated 85 aircraft as of June 30, 2004. Eighty were in SWISS scheduled service, three were deployed for charter flights and two were operated by its Crossair Europe subsidiary. The fleet had an average age at the end of June 2004 of just 5.7 years.

SWISS concluded the renewal of its long-haul fleet in the course of the first six months, with its ninth Airbus A340-300 entering service on June 26. The last Boeing MD-11 is scheduled for withdrawal with the cutover to the winter timetable period at the end of October, after which SWISS will operate an all-Airbus long-haul fleet.

On the regional fleet front, the decision was taken to postpone the delivery of the first Embraer 170, which had been originally scheduled for December 2004, in view of the corporate turnaround which is currently under way. However, the aircraft type remains a firm element in SWISS' future fleet and network planning.

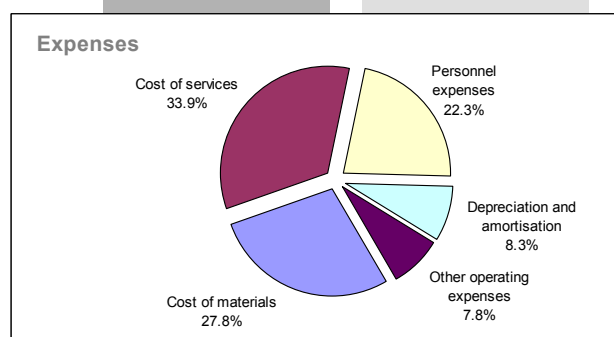
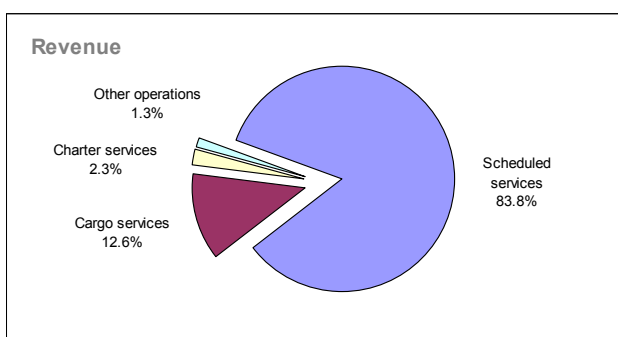
Reduced personnel numbers

SWISS had a total of 7 252 employees in full-time-equivalent (FTE) terms on June 30, 2004 – 820 FTEs fewer than at the end of December 2003. Of these, 6 571 were with the parent company and 681 with various subsidiaries.

The 7 252 FTEs were divided among 8 449 employees around the world.

Swiss International Air Lines (Group), Basel
Consolidated income statement for the first half-year (unaudited)

in CHF million	Note	1 st half 2004	1 st half 2003
Revenue from scheduled services		1 440	1 715
Revenue from cargo services		217	260
Revenue from charter services		39	57
Revenue from other operations		22	22
Total revenue		1 718	2 054
Other operating income		50	44
Total income from operating activities		1 768	2 098
Cost of materials		-496	-668
Cost of services		-606	-767
Personnel expenses		-398	-545
Depreciation and amortisation		-148	-116
Profit/loss on disposal of fixed and intangible assets		0	-12
Other operating expenses (net)	8	-139	-336
Loss from operating activities (EBIT)	1	-19	-346
Income from associates		1	1
Financial expenses		-27	-25
Financial income		13	39
Loss before tax (EBT)		-32	-331
Income taxes		-1	-2
Loss after tax		-33	-333
Minority interest		0	0
Net loss for the period		-33	-333
in CHF			
Earnings per share (basic)		-0.62	-6.33
Earnings per share (fully diluted)		-0.62	-6.33



Swiss International Air Lines (Group), Basel
Consolidated income statement for the second quarter (unaudited)

in CHF million	Note	2 nd quarter 2004	2 nd quarter 2003
Revenue from scheduled services		752	835
Revenue from cargo services		108	130
Revenue from charter services		27	35
Revenue from other operations		12	10
Total revenue		899	1 010
Other operating income		23	22
Total income from operating activities		922	1 032
Cost of materials		-262	-320
Cost of services		-301	-352
Personnel expenses		-196	-275
Depreciation and amortisation		-76	-58
Profit/loss on disposal of fixed and intangible assets		0	-12
Other operating expenses (net)	8	-37	-162
Profit/(loss) from operating activities (EBIT)	1	50	-147
Income from associates		1	1
Financial expenses		-14	-14
Financial income		8	28
Profit/(loss) before tax (EBT)		45	-132
Income taxes		0	-1
Profit/(loss) after tax		45	-133
Minority interest		0	0
Net profit/(loss) for the period		45	-133
in CHF			
Earnings per share (basic)		0.86	-2.52
Earnings per share (fully diluted)		0.84	-2.52

Swiss International Air Lines (Group), Basel
Consolidated balance sheet (unaudited)

in CHF million	Note	At June 30, 2004	At December 31, 2003
Cash and cash equivalents		353	503
Fixed-term deposits (3-12 months)		5	0
Derivative assets		9	52
Trade receivables		348	362
Other receivables		119	163
Inventories		29	33
Prepaid expenses and accrued income		23	34
Current assets		886	1 147
Aircraft fleet	2	2 243	2 247
Property, plant and equipment		230	246
Intangible assets		20	19
Investments in associates		5	6
Loans and other investments		186	208
Deferred tax assets		1	1
Non-current assets		2 685	2 727
Total assets		3 571	3 874
Trade payables		280	277
Interest-bearing liabilities		283	286
Derivative liabilities		0	20
Other payables		52	54
Unearned transportation revenue		471	519
Accrued expenses and prepaid income		320	345
Current liabilities		1 406	1 501
Interest-bearing liabilities		912	920
Employee benefit obligations		20	19
Provisions		247	406
Non-current liabilities		1 179	1 345
Total liabilities		2 585	2 846
Minority interest		4	6
Share capital	3	948	1 685
Treasury shares		0	0
Reserves		34	-663
Total shareholders' equity		982	1 022
Total shareholders' equity and liabilities		3 571	3 874

Swiss International Air Lines (Group), Basel
Consolidated statement of changes in shareholders' equity (unaudited)

in CHF million	Share capital	Share premium	Treasury shares	Trans- lation reserve	Hedging reserve	Revaluation reserve	Retained earnings	Total
Balance at January 1, 2003	2 627	338	0	-1	19	2	-1 276	1 709
Revaluation of available-for-sale investments	0	0	0	0	0	-2	0	-2
Currency translation differences	0	0	0	1	0	0	0	1
Gains/(losses) on hedging instruments	0	0	0	0	-15	0	0	-15
(Gains)/losses transferred to income statement	0	0	0	0	0	0	0	0
Net gains/losses recognised directly in equity	0	0	0	1	-15	-2	0	-16
Net loss for the period	0	0	0	0	0	0	-333	-333
Reduction in share capital and share premium	-946	-338	0	0	0	0	1 284	0
Shares issued	0	0	0	0	0	0	0	0
Dividends to shareholders	0	0	0	0	0	0	0	0
Balance at June 30, 2003	1 681	0	0	0	4	0	-325	1 360
Balance at January 1, 2004	1 685	0	0	0	20	0	-683	1 022
Revaluation of available-for-sale investments	0	0	0	0	0	0	0	0
Currency translation differences	0	0	0	0	0	0	0	0
Gains/(losses) on hedging instruments	0	0	0	0	-7	0	0	-7
(Gains)/losses transferred to income statement	0	0	0	0	0	0	0	0
Net gains/losses recognised directly in equity	0	0	0	0	-7	0	0	-7
Net loss for the period	0	0	0	0	0	0	-33	-33
Reduction in share capital and share premium	-737	0	0	0	0	0	737	0
Shares issued	0	0	0	0	0	0	0	0
Dividends to shareholders	0	0	0	0	0	0	0	0
Balance at June 30, 2004	948	0	0	0	13	0	21	982

Swiss International Air Lines (Group), Basel
Consolidated cash flow statement (unaudited, condensed)

in CHF million	1 st half 2004	1 st half 2003
Net loss for the period	-33	-333
Adjustments for income and expenses not involving the movement of funds	160	129
Changes in net working capital (other than cash and cash equivalents)	-134	-33
Net cash provided by/(used in) operating activities	-7	-237
Net cash provided by/(used in) investing activities	-37	-111
Net cash provided by/(used in) financing activities	-108	-21
Increase/(decrease) in cash and cash equivalents	-152	-369
Effect of exchange-rate differences	2	-2
Cash and cash equivalents as of January 1	503	1 128
Cash and cash equivalents as of June 30	353	757

Cash and cash equivalents comprise cash on hand, postal and bank accounts and short-term deposits with an original maturity of not more than 90 days.

Swiss International Air Lines (Group), Basel

Selected notes to the consolidated interim financial statements

The unaudited consolidated interim financial statements for the half-year ending June 30, 2004, including the comparative figures for the prior-year period, present a true and fair view of the company's consolidated financial position, results of operations and cash flow in accordance with IAS 34.

The accounting principles used conform to the accounting principles set out in the 2003 Annual Report. No new or revised standards or guidelines were adopted on January 1, 2004 which might have a major impact or influence on these consolidated results.

1 Comparability with prior-year results

The earnings results for the first half of 2004 are only comparable to their prior-year equivalents to a limited degree. This is because SWISS conducted a radical corporate restructuring in the second half of 2003 which included a substantial downsizing of its route network. Similarly, in view of the reduced business volumes and the sizeable cost reductions achieved in flight operations and administrative activities, the individual cost items for the first half of 2004 cannot be meaningfully compared to those of the prior-year period.

2 The aircraft fleet as of June 30, 2004

	Seating capacity	Owned	On finance lease	On operating lease	Leased out	Parked	Total operated by the SWISS Group
Boeing MD-11	241	0	0	4	0	2	2
Airbus A340-300	228	0	9	0	0	0	9
Airbus A330-200	196/230	0	2	7	0	0	9
Airbus A320 family	110-186	0	15	10	0	0	25
Avro RJ100	97	2	13	0	0	0	15
Avro RJ85	82	4	0	0	0	0	4
Embraer RJ145	49	0	9	4	1	0	12
Saab 2000	50	18	5	0	7	7	9
Saab 340	33	10	0	3	11	2	0
Total	-	34	53	28	19	11	85

A total of 22 aircraft of various types were returned to their owners in the first half of 2004. These included the last seven Boeing MD-82/83s, five Boeing MD-11s and four Embraer RJ145s. The two Boeing MD-11s shown as "parked" were being prepared for return to their owners in August and September.

The ninth Airbus A340-300 entered revenue service on June 26.

Swiss International Air Lines (Group), Basel
Selected notes to the consolidated interim financial statements

3 Share capital and share premium	At June 30, 2004	At January 1, 2004
Number of shares (in thousands)	52 670	52 667
Share capital (in CHF million)	948	1 685

The voters attending the Ordinary General Meeting of May 6, 2004 approved a capital reduction designed to prevent the company's net equity from falling below 50 per cent of its share capital and legal reserves (Article 725 of the Swiss Code of Obligations). As a result, the nominal value of the SWISS share was reduced from CHF 32 to CHF 18 per share.

4 Dividends

No dividends were distributed in 2004.

5 Operating leases	in CHF million	At June 30, 2004	At December 31, 2003
Maturing within 12 months		102	127
Maturing within 1-5 years		355	385
Maturing after 5 years		118	179
Total		575	691

The operating lease liabilities relate mainly to operating lease contracts for aircraft. These amounted to CHF 454 million as of June 30, 2004 (compared to CHF 473 million as of December 31, 2003). Operating lease contracts were held for a total of 28 aircraft at the end of June 2004.

The decline in future minimum operating lease payments compared to December 31, 2003 is due to the return of five Boeing MD-11s, three Airbus A330s, seven Boeing MD-82/83s and one Saab 2000, and the downsizing by one aircraft of the Airbus A320 family.

Operating lease payment expenses amounted to CHF 54 million for the first half of 2004. This compares to CHF 118 million paid for the prior-year period.

Lease terms have been agreed for periods between nine months and 12 years. Some of these lease contracts may be terminated prematurely, while others do not contain any such provisions. The table above pays due and full regard to any premature termination rights in the context of SWISS's overall fleet planning.

In addition to aircraft leases, long-term rental agreements have also been concluded for building premises. These

Swiss International Air Lines (Group), Basel

Selected notes to the consolidated interim financial statements

are regularly adjusted to current market conditions. As a rule, none of these rental agreements have been concluded for more than a ten-year period. SWISS's facilities at EuroAirport Basel-Mulhouse-Freiburg are subject to a 50-year rental agreement.

6 Capital commitments	in CHF million	At June 30, 2004	At December 31, 2003
Capital commitment to purchase aircraft		1 353	1 432
Capital commitment to purchase property, plant and equipment (including intangible assets)		0	0
Total		1 353	1 432

7 Contingencies/contingent liabilities	in CHF million	At June 30, 2004	At December 31, 2003
Swiss TravelClub mileage programme		pro memoria	pro memoria
Joint and several liability for VAT payments		pro memoria	pro memoria

The SWISS Group is jointly and severally liable for the miles collected by the members of its frequent flyer programme. A provision of CHF 57 million had been effected as of June 30, 2004 to cover this liability (compared to CHF 61 million as of December 31, 2003).

The Board of Directors and Executive Management do not expect any liability claims deriving from the earlier joint and several liability of the SAirGroup VAT group, which included the former Crossair.

8 Legal matters pending

With reference to the information provided as of December 31, 2003, a substantial development can be reported as of June 30, 2004 in one prolonged legal case:

An out-of-court settlement which is to the satisfaction of both parties was concluded during the first half of 2004 in the legal dispute with Société Holco and Société d'exploitation AOM Air Liberté, which was shown as a legal matter pending in the 2003 Annual Report.

The settlement was approved by the relevant authorities on June 29, 2004. In the wake of this settlement, provisions amounting to CHF 68 million were released. The amount was taken to the income statement under "Other operating expenses", which were reduced accordingly.

For further details, see Note 10, "Subsequent events".

Swiss International Air Lines (Group), Basel
Selected notes to the consolidated interim financial statements

9 Pledged assets	in CHF million	At June 30, 2004	At December 31, 2003
Cash and cash equivalents		46	42
Other receivables		70	105
Owned aircraft		55	58
Leased aircraft		1 855	1 838
Leased spare engines		0	10
Other leased equipment		2	20
Advance payments for aircraft		56	122
Property		153	159
Property under construction		1	1
Loans to third parties		48	65
Cash deposits		123	133
Total		2 409	2 553

Credit facilities used in the amount of CHF 42 million for guarantees, letters of credit and derivatives are partly secured by cash and cash equivalents with a carrying amount of CHF 46 million. Mortgage loans of CHF 19 million are secured by aircraft with a carrying amount of CHF 55 million.

The leased assets secure the related finance lease obligations. The Group has also entered into cross-collateralisation agreements for 24 aircraft held under finance leases, whereof the total lease payments for 17 Airbus aircraft have been prepaid.

The Group was provided with a credit facility for financing the pre-delivery payments relating to the purchase of the Airbus A340-300 fleet. The security provided for this loan consists of the A340-300 purchase agreement, advance payments of CHF 56 million and a package of 17 Airbus aircraft under prepaid finance leases.

A loan in the amount of CHF 87 million is secured by the potential sales proceeds of seven Embraer aircraft held under finance leases with a carrying amount of CHF 153 million.

The company is a concessionaire of various buildings at EuroAirport Basel-Mulhouse-Freiburg. The corresponding rental agreements have generally been concluded for 50 years from construction of the building, granting the company a right similar to a finance lease and in some cases to an operating lease. To the extent that the company has pre-financed the corresponding construction costs, such expenses can be regarded as advance lease payments. Upon termination of the concessionary period, the company will have no rights or entitlements towards the lessor. The Group is unable to sell such properties and properties under construction with a total carrying amount of CHF 154 million.

Loans to third parties in the amount of CHF 48 million represent collaterals and deposits for aircraft finance lease contracts.

Cash deposits relate mainly to the maintenance of aircraft held under operating leases and cash fuel deposits.

Swiss International Air Lines (Group), Basel

Selected notes to the consolidated interim financial statements

10 Subsequent events

The funds amounting to some CHF 68 million which were released in connection with the settlement of the legal dispute with Société Holco and Société d'exploitation AOM Air Liberté have been transferred in two tranches to SWISS's bank accounts.

These transfers were effected in July and August, and thus fall beyond the balance sheet date of June 30 used for the interim financial statements for the first half of 2004. This is why the increase in liquidity resulting from this settlement is not shown on either the balance sheet at June 30, 2004 or the cash flow statement for the first half-year. In contrast to its earnings impact, which is shown in the income statement for the first half-year in view of the settlement having been concluded during this time and approved on June 29, the amount will only be shown as a cash-flow on the interim cash flow statement for the third quarter of 2004.

In view of the CHF 68 million involved, however, the increase in liquidity is deemed worthy of mention here.

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