



# Swiss International Air Lines Ltd. Half-year Report, January–June 2005



## Swiss International Air Lines (Group), Basel

### Introductory remarks by Christoph Franz, President and Chief Executive Officer

#### Dear shareholder,

Swiss International Air Lines (Group) improved its result from operating activities (EBIT) before restructuring costs to minus CHF 9 million for the first six months of 2005, compared to minus CHF 19 million for the prior-year period.

SWISS made further substantial progress in the first half-year. The steep increases in fuel costs and continuing fare erosion have become major challenges for the entire airline industry. By swiftly initiating and consistently implementing further actions to reduce its costs, SWISS has been able to largely offset the negative impact of these trends on its results. The EBIT improvement that the present corporate restructuring is designed to achieve has, however, been substantially hindered by the additional cost of aviation fuel.

#### Encouraging signs despite a difficult environment

With an EBIT before restructuring costs of minus CHF 9 million for the first six months of 2005, SWISS continues to post losses, despite its comprehensive restructurings of the past few years. Thus, while clear progress has been made, SWISS has not yet achieved its declared corporate objectives.

There are, however, signs of improvement at SWISS – signs that can be seen despite a further toughening of the business environment. Yields (revenue per passenger kilometre) remained under pressure throughout the European air transport sector in the first six months of 2005, with the market still subject to persistent overcapacity and continuing fare erosion.

As a further factor, the record cost of aviation fuel added a substantial CHF 104 million to SWISS's operating expenses in the first six months of 2005 alone, compared to the same period a year ago.

Excluding the additional costs incurred through high jet fuel prices, SWISS's unit costs in the first six months of 2005 were 3.3% lower than their equivalents a year ago.

Further efforts are clearly needed, however, and the continued implementation of our restructuring measures remains our highest priority – with Lufthansa, too. SWISS's integration into the Lufthansa Group offers various new strategic perspectives, including the opportunity to exploit cost synergies in areas such as financing and procurement, where SWISS should benefit from much-enhanced terms and conditions. Regardless of the benefits that are expected to derive from such integration, however, SWISS is continuing the efforts it embarked upon in January 2005 to create a profitable and competitive foundation for its further corporate growth. The current restructuring programme should be completed as originally announced in the course of 2006.

#### SWISS and Lufthansa

Deutsche Lufthansa AG made a public purchase offer to all the minority shareholders of Swiss International Air Lines Ltd. through the Swiss-domiciled AirTrust AG at the beginning of May 2005. The offer was based on a business model jointly devised by Lufthansa and SWISS for the acquisition of SWISS by Lufthansa and its integration into the Lufthansa Group.

We are delighted to report that the large majority of SWISS shareholders have accepted this offer, enabling these ambitions to be speedily achieved. By the expiration of the offer period and the subsequent grace period on June 22, Deutsche Lufthansa AG and the Almea Foundation held 98.7% of the share capital of Swiss International Air Lines Ltd. via the Swiss-domiciled AirTrust AG. This shareholding has since been increased to over 99%. Lufthansa has increased its share-

holding in AirTrust AG from the original 11% to 49%.

#### Adding value for our customers

SWISS is currently in the midst of a quality drive. A new user concept was introduced at Zurich Airport in the first six months of 2005; food and drink have also been included in the price of an Economy Class ticket since the end of May; our Airbus A320s have been equipped with new seats; and with the Boeing Business Jet service which was introduced in January, we now offer a product between Zurich and New York that is specifically tailored to business travellers' needs.

More customer benefits will derive from the coming winter schedules with SWISS's further integration into the Lufthansa Group, which is proceeding swiftly and according to plan. These include additional destinations, harmonised service patterns between Switzerland and Germany and better connections, greater lounge access and inter-linked frequent flyer programmes. The check-in desks and departure gates at the three hubs of Zurich, Frankfurt and Munich will also be entrusted to each home carrier from the start of the winter timetable period. The shorter distances will permit shorter connecting times and thus better onward connections.

SWISS is still SWISS – and will continue to connect Switzerland with Europe and the world. And SWISS will continue to consistently implement its current restructuring programme, and thereby provide itself with the prospects and the perspectives of future business growth.



Dr. Christoph Franz

President and  
Chief Executive Officer

## Swiss International Air Lines (Group), Basel Financial results for the first half-year of 2005

### **EBIT before restructuring costs of minus CHF 9 million**

The result from operating activities (EBIT) before restructuring costs amounted to a loss of CHF 9 million for the first six months of 2005, which compares to a loss of CHF 19 million before restructuring costs for the prior-year period.

The operating income and EBIT results include non-recurring income of CHF 43 million deriving from the transfer of slots at London Heathrow Airport to British Airways during the first quarter. Results for the prior-year period include CHF 68 million stemming from the settlement of the Holco legal case.

The high cost of jet fuel eroded an additional CHF 104 million from the EBIT result for the first six months of 2005 compared to the same period a year ago. In a tough competitive environment, only approximately one third of these additional costs could be recouped through the fuel surcharges levied on passenger air tickets.

EBIT for the second quarter of 2005 amounted to CHF 1 million. This compares with an EBIT for the prior-year period (excluding the non-recurring CHF 68 million deriving from the Holco case) of minus CHF 18 million.

Financial expenses for the first six months of 2005 amounted to CHF 80 million (prior year: CHF 27 million) and comprised ordinary interest payments on financial liabilities and CHF 48 million in currency exchange value adjustments on outstanding US dollar-denominated debt. The currency translation loss derives from the fact that the US dollar gained in strength against the Swiss franc in the course of the first six months. The CHF 6 million financial income for the period (prior year: CHF 13 million, including CHF 10 million in currency exchange gains) consists of ordinary interest income from cash and cash equivalents and fixed-term deposits.

The consolidated net result for the first six months of 2005 amounted to a loss of CHF 89 million, which compares to a loss of CHF 33 million in the first six months of 2004. The higher loss, despite an improved EBIT result, is due primarily to the deterioration in the financial result owing to currency exchange movements.

The costs of the restructuring that was announced in January of this year, involving a reduction in the size of the workforce by between 800 and 1 000 positions, are not included in the result shown here because the required information is not known at this point. In particular, negotiations with the unions are continuing, the outcome of which will have a significant influence on the costs of the restructuring.

SWISS has been able to largely offset the negative impact of the steep increase in fuel costs and the continuing fare erosion by swiftly initiating and consistently implementing further actions to reduce its costs. The EBIT improvement that the present restructuring is designed to achieve has, however, been substantially hindered by the additional cost of jet fuel.

### **A positive CHF 113 million cash flow from operating activities**

*Cash flow from operating activities* amounted to CHF 113 million for the first six months of 2005. This compares to a cash flow of CHF 3 million for the prior-year period. The CHF 110 million increase is attributable to the improved EBIT result and to various actions taken to enhance working capital management.

*Cash flow from investing activities* was positive, thanks to divestments effected during the period. The CHF 87 million net cash inflow compares to a net cash outflow of CHF 37 million for the prior-year period. The transfer to British Airways of slots at London Heathrow

Airport produced a cash inflow of CHF 43 million; aircraft disposals and refunds of advance payments from aircraft manufacturers generated a cash inflow of CHF 33 million; and the reduction of various cash deposits with suppliers produced a cash inflow of a further CHF 38 million. A cash outflow of CHF 35 million was incurred through investments in interior components, rotatable spares and consumables for the aircraft fleet. Other divestments and interest received resulted in a further cash inflow of CHF 8 million.

*Cash flow from financing activities* amounted to minus CHF 190 million, which compares to minus CHF 124 million for the prior-year period. A total of CHF 116 million of liquid funds was used to amortise aircraft finance lease liabilities. CHF 45 million of liquid funds was used to repay liabilities, including the repayment in full of the CHF 43 million still outstanding on the CHF 50 million Barclays Bank loan. The repayment of this loan had no net impact on liquid funds, as it fell within the same accounting period as the CHF 43 million cash inflow from investing activities deriving from the transfer of London Heathrow slots to British Airways. These slots had served as collateral for the Barclays loan. Further cash outflows of CHF 28 million stemmed from ordinary interest payments on finance lease liabilities.

Cash and cash equivalents amounted to CHF 497 million on June 30, 2005. The balance sheet also showed fixed-term deposits of CHF 1 million. Cash and cash equivalents had stood at CHF 481 million (plus CHF 4 million in fixed-term deposits) at the end of 2004.

SWISS had an additional CHF 139 million in liquid funds available from existing banking credit facilities at the end of June 2005. This amount varies depending, among other things, on the exchange rates of the US dollar and the Euro against the Swiss franc.

## Swiss International Air Lines (Group), Basel Financial results for the first half-year of 2005

SWISS has currently hedged 59% of its expected fuel needs for the rest of 2005. The record high prices of jet fuel created additional pressure to speed up the restructuring process in order to achieve the turnaround of the company. While kerosene prices had already shown steep increases towards the end of the first-quarter period, the full impact of these higher fuel costs was not felt until the second quarter.

### Equity ratio at 26.4%

Group shareholders' equity amounted to CHF 819 million on June 30, 2005 (equity ratio: 26.4%), having totalled CHF 852 million (equity ratio: 27.3%) at the end of 2004.

### Further reduction in net financial debt

Net financial debt saw a further CHF 150 million reduction in the first six months of 2005, from the CHF 594 million at the end of 2004 to CHF 444 million on June 30, 2005. In addition to the positive cash flow from operating activities, the reduction was due in particular to the funds released by divestment activities.

### Improved load factors, yield pressure in Europe

*Load factor:* SWISS carried 4.69 million passengers in the first six months of 2005 (prior year: 4.56 million). The company performed a total of 68 981 flights, which registered an average seat load factor of 76.9% (prior year: 73.4%). On the European network, available seat kilometre (ASK) capacity was

unchanged from prior-year levels. However, European seat load factor for the period rose 3.5 percentage points to 63.8%. Seat load factor on intercontinental routes saw an even higher increase of 4.1 percentage points to 83.2%, while intercontinental ASK capacity was 9.7% below prior-year levels.

Systemwide seat load factor for the second quarter of 2005 stood at 79.5% (prior year: 75.4%). Seat load factor on European services amounted to 68.6%, up 3.6 percentage points. For its intercontinental routes, SWISS posted a second-quarter seat load factor of 84.8%, up 4.8 percentage points on the prior-year period.

Cargo load factor for the first six months of 2005 amounted to 86.1%, a slight year-on-year increase of 0.2 percentage points.

While SWISS's long-haul business continues to show very positive trends, seat load factor for Europe remains less than satisfactory, despite the increase achieved. The no-frills carriers in particular continue to exert pressure in larger prime European markets in both capacity and pricing terms.

*Yield:* Yields (revenue per passenger kilometre) remained under pressure throughout the European air transport sector in the first six months of 2005, with the market still subject to persistent overcapacity and continuing fare erosion. SWISS suffered a 5.7% year-on-year decline in yield on its European network for the period. Yield on intercontinental services, by contrast, was a 4.6% improvement on its prior-year equivalent.

SWISS saw a positive development in its revenue per available seat kilometre or RASK. Calculated from seat load factor and yields, RASK – together with cost per available seat kilometre or CASK – is a key component in determining a company's operating results. SWISS's RASK for the first six months of 2005 was virtually unchanged (with a year-on-year im-

provement of 0.1%) for its European services, but showed a 9.7% improvement on intercontinental routes. As a result, systemwide RASK for the first six months of 2005 was 6.9% up on the prior-year period.

The systemwide RASK increase is also due to year-on-year shifts in the relative contributions of intercontinental and European services to overall ASK capacity. By the nature of the industry's pricing systems, RASK will always be lower on long intercontinental routes than on the European network. So a relative shift in capacity towards European operations will automatically raise RASK systemwide.

RASK results also include the fuel surcharges which SWISS has been levying on its tickets since summer 2004. In line with general industry practice, SWISS introduced these surcharges in the course of last year in response to the steep rise in jet fuel prices, and has since gradually adjusted them in line with fuel price trends.

### Unit costs still too high

SWISS has substantially reduced its costs compared to those of 2004 in its endeavours to establish a cost base which will enable it to compete more effectively. The achievements to date have, however, been largely neutralised by the present high cost of aviation fuel, which eroded an additional CHF 104 million from the EBIT result for the first six months of 2005 compared to the same period a year ago. Cost per available seat kilometre (CASK) rose accordingly by 3.6%. Excluding the additional costs incurred through high jet fuel prices, SWISS reduced its CASK by 3.3% in 2005.

Like its RASK counterpart, CASK was also affected by the shift in the relative contributions of European and intercontinental production to overall ASK capacity. Here, how-

<sup>1</sup> The CHF 4 million difference between this amount and the CHF 848 million shown in the annual financial statements for 2004 is due to a change in IFRS accounting standards whose adoption is required by the SWX Swiss Exchange.

## Swiss International Air Lines (Group), Basel Financial results for the first half-year of 2005

ever, the effect was the opposite: an increase in the proportion of European production led to an automatic increase in systemwide CASK. This is because, in view of the shorter distances flown, CASK is higher for European services than for intercontinental flights.

Irrespective of these mechanisms, CASK must be further reduced – especially in view of continuing losses, the price erosion that has persisted in 2005 and the extremely difficult situation on the jet fuel market.

SWISS's performance in the first half of 2005 also felt the adverse effect of an increase in personnel expenses per full-time employee, which were 3.5% up on the prior-year period. The increase is due largely to the automatic annual salary increases that are granted to flying personnel under the seniority principle.

SWISS continues to consistently implement its current cost reduction programme throughout all areas of its organisation, with a particular focus on catering, on ground services (handling) and on raising internal productivity.

### **Progress made with the current restructuring programme**

SWISS's integration into the Lufthansa Group offers various new strategic perspectives, including the opportunity to exploit cost synergies in areas such as financing and procurement, where SWISS should benefit from much-enhanced terms and conditions. Regardless of the benefits that are expected to derive from such integration, however, SWISS is continuing the efforts it embarked upon in January 2005 to create a profitable and competitive foundation for its further corporate growth. The current restructuring programme should be completed as originally announced in the course of 2006.

Substantial cost savings are being derived from the outsourcing in the

course of the first quarter of the company's IT operations to Swisscom IT Services and the intensified collaboration with Mindpearl, SWISS's fully-owned telephone sales subsidiary.

The first-quarter period also brought progress in the Collective Labour Agreement (CLA) negotiations which are being conducted with all the company's unions, with agreement reached with the delegations from KV Switzerland, VPOD Air Transport and PUSH on a new CLA for Swiss-based ground personnel that entered into formal effect on April 1, 2005. The new ground-staff CLA was also ratified by the GATA union at the end of April. Agreement was also reached on the simultaneous implementation of a new severance benefits package.

Negotiations on new CLAs are continuing with the company's cabin crew union and the Aeropers cockpit crew union. The Swiss Pilots Association sought a new arbitration process at the beginning of May. SWISS will continue to strive to agree and adopt viable and forward-looking solutions with all its social partners which serve to secure jobs in the longer term.

SWISS is currently in the midst of a quality drive. At Zurich Airport, all SWISS services within Europe and to North Africa are now handled at the airport's "A" gates, while all SWISS intercontinental services now depart from the "E" gates. Inflight food and drink has also been included in the ticket price for Swiss Economy passengers since the end of May. The new seats now installed on the SWISS Airbus A320 European fleet have also enhanced travel comfort; and with the introduction in January of the new Boeing Business Jet service operated by PrivatAir, SWISS now offers an attractive product on the Zurich-New York (Newark) route that is specifically tailored to business travellers' needs.

A further milestone on the road to SWISS's turnaround was reached

at the end of July when, after protracted negotiations, SWISS and SR Technics Switzerland reached an out-of-court settlement in their dispute over the interpretation of their maintenance contract, thus ending the arbitration process they were engaged in. Established on a new basis, their revised cooperation agreement enables SWISS to significantly reduce maintenance costs for its Airbus fleet. At the same time, SWISS and SR Technics have extended their current contract, which is valid until 2009, by a further three years.

The desired reduction of the SWISS regional aircraft fleet by at least 15 aircraft in the course of 2005 and 2006 is a further major step towards establishing competitive production structures in every market segment. SWISS will have reduced its fleet by 14 aircraft (including those of Crossair Europe) by the start of the 2005/06 winter schedules. Despite this reduction in the regional fleet, SWISS will continue to offer an attractive range of air services through collaborations with partner airlines, especially with those within the Lufthansa Group.

### **Personnel numbers**

The average number of personnel employed by SWISS (in full-time equivalents or FTEs) in the first six months of 2005 amounted to 6 497, a decline of 955 on the 7 452 employed during the same period last year. SWISS employed a total of 6 477 FTEs on June 30, 2005 – 148 fewer than at the end of 2004. The 6 477 FTE positions are occupied by 7 583 employees around the world.

### **Public purchase offer successfully concluded**

By the expiration of the offer period and the subsequent grace period on June 22, Deutsche Lufthansa AG and the Almea Foundation held 98.7% of the share capital of Swiss

## Swiss International Air Lines (Group), Basel Financial results for the first half-year of 2005

International Air Lines Ltd. via the Swiss-domiciled AirTrust AG. This shareholding has since been increased to over 99%.

With over 99% of SWISS share capital, AirTrust AG has exceeded the minimum shareholding required to initiate a “squeeze-out” procedure to obtain the remaining SWISS shares. And, with approval of the proposed acquisition of Swiss International Air Lines Ltd. by Deutsche Lufthansa AG received from both the European Commission and the US anti-trust authorities on July 5, the way was cleared for SWISS’s integration into the Lufthansa Group. The European Commission has agreed certain measures with Lufthansa and SWISS to ensure adequate market access for possible new competitors. These centre largely on making landing and takeoff slots available to other carriers on various European and intercontinental routes. US anti-trust approval has been granted unconditionally.

AirTrust AG has now initiated the squeeze-out procedure, and has made a cash offer for the remaining SWISS shares held by minority shareholders. Lufthansa has increased its shareholding in AirTrust AG from the original 11% to 49%.

SWISS’s integration into the Lufthansa Group is proceeding according to plan. The integration is intended to ensure the provision of the best possible network of European and intercontinental air links – particularly through direct services – to maintain Switzerland’s economic strength and business appeal. The planned integration into the Lufthansa Group offers SWISS new prospects and perspectives in terms of the attractiveness of its products and services to its customers, including more destinations, better connections, inter-linked frequent flyer programmes, lounge access and more.

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

in CHF million	Note	1 <sup>st</sup> half 2005	1 <sup>st</sup> half 2004
Revenue from scheduled services		1 390	1 440
Revenue from cargo services		228	217
Revenue from charter services		38	39
Revenue from other operations		22	22
<b>Total revenue</b>		<b>1 678</b>	<b>1 718</b>
Gain on disposal of fixed and intangible assets		6	0
Other operating income	9	85	50
<b>Total income from operating activities</b>		<b>1 769</b>	<b>1 768</b>
Cost of materials	10	-520	-496
Cost of services		-581	-606
Personnel expenses		-362	-398
Depreciation and amortisation		-133	-148
Loss on disposal of fixed and intangible assets		-3	0
Other operating expenses	7	-179	-139
<b>Loss from operating activities (EBIT) before restructuring costs</b>		<b>-9</b>	<b>-19</b>
Restructuring costs	11	-6	0
<b>Loss from operating activities (EBIT) after restructuring costs</b>		<b>-15</b>	<b>-19</b>
Income from associates		1	1
Financial expenses	12	-80	-27
Financial income		6	13
<b>Loss before tax (EBT)</b>		<b>-88</b>	<b>-32</b>
Income taxes		-1	-1
<b>Net loss for the period</b>		<b>-89</b>	<b>-33</b>
Attributable to:			
Equity holders of the parent		-89	-33
Minority interests		0	0
 in CHF			
Earnings per share (basic)		-1.66	-0.62
Earnings per share (fully diluted)		-1.66	-0.62

This half-yearly report incorporates for the first time the adoption of new IFRS accounting standards that became effective on January 1, 2005. In the income statement, following the classification of minority interests in accordance with the so-called "entity theory", the net result stated now includes minority interests. In compliance with the new IFRS standards, the net result is now also shown in a breakdown of those proportions of it attributable to equity holders of the parent and to minority interests.

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

in CHF million	Note	2 <sup>nd</sup> quarter 2005	2 <sup>nd</sup> quarter 2004
Revenue from scheduled services		736	752
Revenue from cargo services		119	108
Revenue from charter services		25	27
Revenue from other operations		11	12
<b>Total revenue</b>		<b>891</b>	<b>899</b>
Gain on disposal of fixed and intangible assets		2	0
Other operating income		23	23
<b>Total income from operating activities</b>		<b>916</b>	<b>922</b>
Cost of materials	10	-285	-262
Cost of services		-296	-301
Personnel expenses		-182	-196
Depreciation and amortisation		-64	-76
Loss on disposal of fixed and intangible assets		-1	0
Other operating expenses	7	-87	-37
<b>Loss from operating activities (EBIT) before restructuring costs</b>		<b>1</b>	<b>50</b>
Restructuring costs	11	0	0
<b>Loss from operating activities (EBIT) after restructuring costs</b>		<b>1</b>	<b>50</b>
Income from associates		0	1
Financial expenses	12	-50	-14
Financial income		4	8
<b>Profit/(loss) before tax (EBT)</b>		<b>-45</b>	<b>45</b>
Income taxes		0	0
<b>Net profit/(loss) for the period</b>		<b>-45</b>	<b>45</b>
Attributable to:			
Equity holders of the parent		-45	45
Minority interests		0	0
 in CHF			
Earnings per share (basic)		-0.84	0.86
Earnings per share (fully diluted)		-0.84	0.84

This half-yearly report incorporates the adoption of new IFRS accounting standards that became effective on January 1, 2005. In the income statement, following the classification of minority interests in accordance with the so-called "entity theory", the net result stated now includes minority interests. In compliance with the new IFRS standards, the net result is now also shown in a breakdown of those proportions of it attributable to equity holders of the parent and to minority interests.

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

In CHF million		June 30, 2005	December 31, 2004 <sup>1</sup>
Cash and cash equivalents	8	497	481
Fixed-term deposits (3-12 months)		1	4
Derivative assets		70	11
Trade receivables		327	233
Other receivables		32	21
Inventories		29	29
Prepaid expenses and accrued income		24	29
<b>Current assets</b>		<b>980</b>	<b>808</b>
Aircraft fleet	2, 8	1 789	1 927
Property, plant and equipment	8	179	193
Intangible assets		15	18
Investments in associates		6	5
Loans and other investments	8	133	171
Deferred tax assets		1	1
<b>Non-current assets</b>		<b>2 123</b>	<b>2 315</b>
<b>Total assets</b>		<b>3 103</b>	<b>3 123</b>
Trade payables		227	245
Interest-bearing liabilities		149	244
Derivative liabilities		42	22
Other payables		55	33
Unearned transportation revenue		496	385
Accrued expenses and prepaid income		322	296
<b>Current liabilities</b>		<b>1 291</b>	<b>1 225</b>
Interest-bearing liabilities		792	831
Employee benefit obligations		12	11
Provisions		189	204
Deferred tax liabilities		0	0
<b>Non-current liabilities</b>		<b>993</b>	<b>1 046</b>
<b>Total liabilities</b>		<b>2 284</b>	<b>2 271</b>
Share capital	3	961	948
Treasury shares		0	0
Reserves		-145	-100
Minority interest		3	4
<b>Total shareholders' equity</b>		<b>819</b>	<b>852</b>
<b>Total shareholders' equity and liabilities</b>		<b>3 103</b>	<b>3 123</b>

<sup>1</sup> This half-yearly report incorporates the adoption of new IFRS accounting standards that became effective on January 1, 2005. In the balance sheet, minority interests are now included in shareholders' equity in accordance with the so-called "entity theory".

In order to provide a basis of comparison, the 2004 pro forma statements reflect these changes as if they had already been in effect in 2004.

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

in CHF million	Share capital	Share premium	Treasury shares	Translation reserve	Hedging reserve	Revaluation reserve	Retained earnings	Minorities <sup>1</sup>	Total
<b>Balance at January 1, 2004</b>	<b>1 685</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20</b>	<b>0</b>	<b>-683</b>	<b>6</b>	<b>1 028</b>
Revaluation of available-for-sale investments	0	0	0	0	0	0	0	0	0
Currency translation differences	0	0	0	0	0	0	0	0	0
Gains/(losses) on hedging instruments	0	0	0	0	-7	0	0	0	-7
(Gains)/losses transferred to income statement	0	0	0	0	0	0	0	0	0
<b>Net gains/losses recognised directly in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-7</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-7</b>
Net loss for the period	0	0	0	0	0	0	-33	0	-33
Reduction in share capital and share premium	-737	0	0	0	0	0	737	0	0
Shares issued	0	0	0	0	0	0	0	0	0
Dividends to shareholders	0	0	0	0	0	0	0	-2	-2
<b>Balance at June 30, 2004</b>	<b>948</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>0</b>	<b>21</b>	<b>4</b>	<b>986</b>
<b>Balance at January 1, 2005</b>	<b>948</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-14</b>	<b>0</b>	<b>-86</b>	<b>4</b>	<b>852</b>
Revaluation of available-for-sale investments	0	0	0	0	0	0	0	0	0
Currency translation differences	0	0	0	0	0	0	0	0	0
Gains/(losses) on hedging instruments	0	0	0	0	23	0	0	0	23
(Gains)/losses transferred to income statement	0	0	0	0	26	0	0	0	26
<b>Net gains/losses recognised directly in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>49</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>49</b>
Net loss for the period	0	0	0	0	0	0	-89	0	-89
Reduction in share capital and share premium	0	0	0	0	0	0	0	0	0
Shares issued	13	0	0	0	0	0	-5	0	8
Dividends to shareholders	0	0	0	0	0	0	0	-1	-1
<b>Balance at June 30, 2005</b>	<b>961</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>35</b>	<b>0</b>	<b>-180</b>	<b>3</b>	<b>819</b>

<sup>1</sup> This half-yearly report incorporates the adoption of new IFRS accounting standards that became effective on January 1, 2005. Since minority interests are now included in shareholders' equity in the balance sheet in accordance with the so-called "entity theory", they are now also included in the statement of changes in shareholders' equity.

In order to provide a basis of comparison, the 2004 pro forma statements reflect these changes as if they had already been in effect in 2004.

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

In CHF million	1 <sup>st</sup> half 2005	1 <sup>st</sup> half 2004 <sup>1</sup>
<b>Net loss for the period</b>	<b>-89</b>	<b>-33</b>
Adjustments for income and expenses not involving the movement of funds	114	102
Changes in net working capital (other than cash and cash equivalents)	88	-66
<b>Cash flow from operating activities</b>	<b>113</b>	<b>3</b>
<b>Cash flow from investing activities</b>	<b>87</b>	<b>-37</b>
<b>Cash flow from financing activities</b>	<b>-190</b>	<b>-124</b>
Increase/(decrease) in cash and cash equivalents	10	-158
Effect of exchange-rate differences	6	8
Cash and cash equivalents as of January 1	481	503
Cash and cash equivalents as of June 30	497	353

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.

<sup>1</sup> The presentation of certain items in cash flow from operating activities was changed from a net to a gross perspective with effect from December 31, 2004. The modification has no impact on the figures stated, i.e. on cash flow from operating activities.

In order to provide a basis of comparison, the pro forma statements for the first six months of 2004 reflect these changes as if they had already been in effect.

## Swiss International Air Lines (Group), Basel

### Selected notes to the consolidated interim financial statements

This unaudited financial report has been prepared in accordance with the accounting policies set out in International Accounting Standard 34 on Interim Financial Reporting and in the 2004 Annual Report, except that the Group has adopted the following new IFRS rules or made other improvements to its financial statements presentation from January 1, 2005:

#### IFRS 2 (Share-based compensation)

IFRS 2 requires the fair value of any equity instruments granted to employees to be recognised as an expense. The Group had already adopted this policy, so no adjustments were required here.

#### IAS 1 (Associated companies, minority interests)

IAS 1 (revised) requires minority interests to be included in the Group's equity in the consolidated balance sheet instead of as a separate category in the balance sheet and it is no longer deducted in arriving at the Group's net income.

The other revised or new standards did not result in any major adjustments.

#### 1 The aircraft fleet as of June 30, 2005

	Seating capacity	Owned	On finance lease	On operating lease	Leased out	Parked	Total operated by the SWISS Group
Airbus A340-300	228	0	9	0	0	0	9
Airbus A330-200	196-230	0	2	7	0	0	9
Airbus A321	170-186	0	2	2	0	0	4
Airbus A320	168	0	9	5	0	0	14
Airbus A319	110-126	0	4	3	0	0	7
Avro RJ-100	97	9	6	0	0	0	15
Avro RJ-85	82	4	0	0	0	0	4
Embraer ERJ-145	49	0	7	4	0	-2	9
Saab SF-2000	50	19	0	0	-8	-4	7
Saab SF-340	33	7	0	0	-7	0	0
<b>Total</b>	-	<b>39</b>	<b>39</b>	<b>21</b>	<b>-15</b>	<b>-6</b>	<b>78</b>

One Saab SF-2000 aircraft was sold to Eric Thun AB (Goldenair) and three Saab SF-340s were sold to Helvetic Caledonian AB in the first six months of 2005.

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

**2 Share capital and share premium**

	At June 30, 2005	At December 31, 2004
Number of shares (in thousands)	53 404	52 670
Share capital (in CHF million)	961	948

A total of 733 754 fully-paid-up shares were issued from conditional capital in the first six months of 2005 under employee share ownership schemes for remuneration and length-of-service rewards.

**3 Dividends**

No dividends were distributed in 2005.

**4 Operating leases**

in CHF million

	At June 30, 2005	At December 31, 2004
Maturing within 12 months	101	91
Maturing within 1-5 years	313	312
Maturing after 5 years	106	112
<b>Total</b>	<b>520</b>	<b>515</b>

The operating lease liabilities relate mainly to operating lease contracts for aircraft. These amounted to CHF 415 million as of June 30, 2005 (compared to CHF 404 million as of December 31, 2004).

As in the prior-year period, operating lease payment expenses for the first six months of 2005 amounted to CHF 54 million.

Operating lease contracts were held for a total of 21 aircraft at the end of June 2005. Lease terms have been agreed for periods between three months and nine 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 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 were originally rented for a 50-year period. The remaining rental period amounts to roughly 46 years.

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

<b>5 Capital commitments</b>	in CHF million	<b>At June 30, 2005</b>	<b>At December 31, 2004</b>
Capital commitment to purchase aircraft		1 003	1 191
Capital commitment to purchase property, plant and equipment (including intangible assets)		0	0
<b>Total</b>		<b>1 003</b>	<b>1 191</b>

<b>6 Contingencies/contingent liabilities</b>	in CHF million	<b>At June 30, 2005</b>	<b>At December 31, 2004</b>
Joint and several liability for VAT payments		pro memoria	pro memoria

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.

At June 30, 2005, contingent liabilities existed in respect of warranties and indemnifications arising from various contractual agreements. Such liabilities only arise in the event of violation of the contractual agreements concerned. No such violations existed on June 30, 2005.

**7 Legal matters pending**

There were no substantial changes as of June 30, 2005 to the information provided as of December 31, 2004.

In the legal case with Société Holco and Société d'exploitation AOM Air Liberté, an out-of-court settlement to the satisfaction of both parties was reached in the course of the 2004 business year. CHF 68 million in provisions released in the second quarter of 2004 as a result of this settlement was credited to the income statement. This amount is shown as a reduction in expenses under "Other operating expenses" in the 2004 financial statements for the first half-year.

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

8 Pledged assets	in CHF million	At June 30, 2005	At December 31, 2004
Cash and cash equivalents		35	43
Owned aircraft		29	57
Leased aircraft		1 550	1 714
Other leased equipment		1	1
Property		129	135
Loans to third parties		20	46
Cash deposits		102	114
<b>Total</b>		<b>1 866</b>	<b>2 110</b>

Credit facilities used in the amount of CHF 35 million for guarantees, letters of credit and derivatives are partly secured by cash and cash equivalents with a carrying amount of CHF 35 million.

Mortgage loans of CHF 12 million are secured by aircraft with a carrying amount of CHF 29 million.

Certain leased assets secure the related finance lease obligations. The Group also closed a definitive credit agreement with an international banking syndicate for a CHF 325 million secured credit facility and a EUR 68 million letter of credit facility provided by Barclays Bank and Halifax Bank of Scotland. These facilities are secured by 31 aircraft (17 Airbuses, ten Avro RJ-85/100s and four Saab SF-2000s) with a total carrying amount of CHF 628 million (of which CHF 74 million comprises aircraft owned by the Group).

A loan in the amount of CHF 80 million is secured by the potential sales proceeds of seven Embraer aircraft held under finance leases with a carrying amount of CHF 143 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 with a total carrying amount of CHF 129 million.

Loans to third parties in the amount of CHF 20 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

#### 9 Other operating income

The operating income includes non-recurring income of CHF 43 million deriving from the transfer of slots at London Heathrow Airport to British Airways during the first quarter.

#### 10 Cost of materials

The high cost of jet fuel eroded an additional CHF 104 million from the EBIT result for the first six months of 2005 compared to the same period a year ago. In a tough competitive environment, only one third of these additional costs could be recouped through the fuel surcharges levied on passenger air tickets.

#### 11 Restructuring costs

SWISS incurred restructuring costs of CHF 6 million in the first three months of 2005. These related to the reorganisation of the call centres for the Swiss market and the cessation of business for the company's Basel-based Europe Continental Airways (Crossair Europe) subsidiary.

The costs of the restructuring that was announced in February of this year, involving a reduction in the size of the workforce by between 800 and 1 000 positions, are not included in the result shown here because the required information is not known at this point. In particular, negotiations with the unions are continuing, the outcome of which will have a significant influence on the costs of the restructuring.

#### 12 Financial expenses

Financial expenses for the first six months of 2005 amounted to CHF 80 million (prior year: CHF 27 million) and comprised ordinary interest payments on financial liabilities and CHF 48 million in currency exchange value adjustments on outstanding US dollar-denominated debt. The currency translation loss derives from the fact that the US dollar gained in strength against the Swiss franc in the course of the first six months.

## **Swiss International Air Lines (Group), Basel**

### **Selected notes to the consolidated interim financial statements**

#### **13 Subsequent events**

After protracted negotiations, SWISS and SR Technics Switzerland have reached an out-of-court settlement in their dispute over the interpretation of their maintenance contract, thus ending the arbitration process they were engaged in. Established on a new basis, their revised cooperation agreement enables SWISS to significantly reduce maintenance costs for its Airbus fleet. SWISS and SR Technics have also extended their current contract, which is valid until 2009, by a further three years.

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