



SWISS losses substantially reduced

Swiss International Air Lines (Group) generated consolidated income from operating activities of CHF 846 million in the first three months of the 2004 business year and posted earnings before interest and taxes (EBIT) of minus CHF 69 million for the period. SWISS thus effected a reduction of some 65 per cent in its first-quarter operating deficit compared to the minus CHF 199 million posted for the prior-year period. Liquidity amounted to CHF 419 million on March 31, 2004, above plans. SWISS's consistent pursuit of its corporate restructuring activities is having an increasingly positive impact on its future business performance as well, as the full benefit of these endeavours will be felt in the course of 2004 and 2005. The first-quarter results – which were achieved in what are traditionally the weakest three months of the year in revenue terms – also reflect a general recovery throughout the air transport market.

SWISS reported earnings before interest and taxes (EBIT) of minus CHF 69 million for the first three months of 2004 on total income from operating activities of CHF 846 million. The earnings result is a 65.3% improvement on the minus CHF 199 million EBIT recorded for the prior-year period. After the financial result, income taxes and group-related items, SWISS posted a net loss for the period of CHF 78 million. By comparison, the group sustained a CHF 200 million net loss for the first quarter of 2003.

Liquidity of CHF 419 million

The consolidated balance sheet showed cash and cash equivalents of CHF 414 million and fixed-term deposits amounting to CHF 5 million on March 31, 2004. Cash and cash equivalents declined CHF 89 million in the course of the first quarter. Cash flow from operating activities amounted to minus CHF 5 million, compared to minus CHF 197 million for the same period a year ago.

The encouraging operating cash flow performance was achieved through a combination of active cash management and more favourable business trends. Since no Airbus A340s to be operated under finance leases were delivered in the period – the eighth aircraft to join the fleet was not acquired until April 28 – the net cash used in investing activities was limited to CHF 40 million. Much of this amount stems from various investments relating to the introduction of

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the new Airbus A340 to the SWISS aircraft fleet. These included interior installations such as the inflight entertainment system, rotatable spares, other technical components and consumables.

Liquidity was further enhanced by the CHF 50 million drawn on March 16 from the credit facility provided by Barclays Bank. Despite the Barclays Bank credit, however, the repayment of loan amounts due and interest payments resulted in a CHF 45 million net cash outflow from financing activities for the period.

As already communicated in the media release on its 2003 annual results, SWISS is confident of holding cash and cash equivalents of more than CHF 250 million at what is expected to be its lowest liquidity point in the second quarter of 2004. The company's active cash management again contributed positively to the development of liquidity in the first quarter of 2004.

At the same time, SWISS is continuing its negotiations with the major Swiss banks and other international financial institutions to secure additional liquidity which would cushion it from unforeseen events and enable it to take optimum advantage of new business opportunities. SWISS cannot, however, currently put a date on when such negotiations are likely to be concluded.

Shareholders' equity

After due incorporation of the balance sheet losses carried forward, group shareholders' equity amounted to CHF 937 million on March 31, 2004, giving a balance sheet equity ratio of 25.0%.

The shareholders attending the Annual General Meeting on May 6 will be asked to vote on a proposal to reduce the nominal value of the SWISS share from CHF 32 to CHF 18. If approved, the capital reduction would reduce the share capital of Swiss International Air Lines Ltd. by CHF 737 million from CHF 1 685 million to CHF 948 million. The loss carried forward shown on the balance sheet would be reduced by this amount.

The proposed capital reduction is a means prescribed in the Swiss Code of Obligations for restructuring a corporate balance sheet. It has no effect on the company's intrinsic value and, in particular, leaves shareholders' equity unchanged. The outcome of the vote on this issue will be announced in a separate media release following the Annual General Meeting, and will also be posted on the www.swiss.com website.

Traffic volumes and load factors

Figures provided by the Association of European Airlines (AEA) suggest that the main markets largely recovered from the crises experienced last year during the first three months of 2004 in both traffic volume and load factor terms. In its report of April 19, the AEA notes a 4.4% increase in the capacity offered by European carriers and a 7.3% increase in traffic volumes. As a result, the first quarter of 2004 saw load factors rise 1.9 percentage points to 71.7%.

Mirroring this industrywide recovery, SWISS achieved a 3.7-percentage-point year-on-year increase in its first-quarter seat load factor, which amounted to 71.6%. European services performed better: a 5.9-percentage-point improvement brought seat load factor to 55.5%. The increase is largely attributable to network modifications and to the "SWISS in Europe" concept. First-quarter seat load factor on intercontinental services rose to 78.3%, an increase of 1.1 percentage points.

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Progress on SWISS's strategic realignment

SWISS continues to work purposefully towards its corporate turnaround objectives. And the consistent application of the restructuring measures resolved is now having a growing positive impact on business results:

Load factor on SWISS flights rose 3.7 percentage points to 71.6% in the first three months of 2004. Total revenue per available seat-kilometre (RASK) for the first quarter was 1.8% above last year's figure.

Costs were reduced substantially over the same period. The SWISS workforce was further reduced in the first quarter from the 8 072 full-time positions at the end of 2003 to 7 554 at the end of March 2004. The new level is 3 052 positions fewer than at the end of 2002. With the further pursuit of the current restructuring measures and the support of natural staff turnover, personnel numbers will reach their targeted size in the course of 2004.

Many of the renegotiations embarked on with suppliers were also successfully concluded. In some areas, the complex negotiations involved took more time than expected. As a result, not all the action packages agreed have yet been put into effect. Savings were also achieved by enhancing business processes and modifying the distribution model. Costs per available seat-kilometre (CASK) for the first quarter of 2004 were 7.3% below their equivalent for the same period last year.

Changes in top management

André Dosé, President & CEO of Swiss International Air Lines Ltd., placed his position at the disposal of the Board of Directors on March 10. Chairman of the Board Pieter Bouw subsequently assumed the additional function of company CEO on an interim basis.

The SWISS Board of Directors appointed Christoph Franz (44) as the company's new President & CEO when it met on April 19. The appointment followed a rigorous selection procedure which had seen six candidates invited to a final round of intensive discussions. The Board's Nomination Committee subsequently unanimously proposed to the full Board of Directors the appointment of Franz as the company's new CEO. Franz, a German national who holds a doctorate in business administration, spent nine years with Deutsche Bahn AG, the German national railway company, where he held various executive positions culminating in his appointment as a Member of Executive Management and Head of Passenger Transport. Prior to this, he was with Lufthansa from 1990 to 1994, where his duties included membership of the team which planned the German carrier's own corporate turnaround. Christoph Franz joined SWISS on May 1 and will assume his new CEO function on July 1.

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Consolidated income statement for the 1st quarter, unaudited

in CHF million	1 st Quarter 2004	1 st Quarter 2003
Revenue from scheduled services	688	880
Revenue from cargo services	109	130
Revenue from charter services	12	22
Revenue from other operations	10	12
Total revenue	819	1 044
Other operating income	27	22
Total income from operating activities	846	1 066
Cost of materials	-234	-348
Cost of services	-305	-415
Personnel expenses	-202	-270
Depreciation and amortisation	-72	-58
Other operating expenses	-102	-174
Operating result (EBIT)	-69	-199
Income from associates	0	0
Financial expenses	-13	-12
Financial income	5	12
Loss before tax (EBT)	-77	-199
Income taxes	-1	-1
Loss after tax	-78	-200
Minority interest	0	0
Net loss for the period	-78	-200
in CHF		
Earnings per share (EPS)	-1.48	-3.81

Year-on-year comparability: Revenue and income results for the first quarter of 2004 are only comparable with their prior-year equivalents to a limited degree, because SWISS effected a radical corporate restructuring in the second half of 2003 which included a substantial downsizing of the company's route network. In view of the reduced business volumes and the substantial cost economies achieved in the company's flight operations and administrative areas, first-quarter cost comparisons are of similarly negligible value.

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

in CHF million	At March 31, 2004	At December 31, 2003
Cash and cash equivalents	414	503
Fixed-term deposits (3-12 months)	5	0
Derivative assets	9	52
Trade receivables	404	362
Other receivables	160	163
Inventories	31	33
Prepaid expenses and accrued income	27	34
Current assets	1 050	1 147
Aircraft fleet	2 217	2 247
Property, plant and equipment	238	246
Intangible assets	21	19
Investments in associates	6	6
Loans and other investments	209	208
Deferred tax assets	1	1
Non-current assets	2 692	2 727
Total assets	3 742	3 874
Trade payables	248	277
Interest-bearing liabilities	281	286
Derivative liabilities	2	20
Other payables	58	54
Unearned transportation revenue	529	519
Accrued expenses and prepaid income	379	345
Current liabilities	1 497	1 501
Interest-bearing liabilities	903	920
Employee benefit obligations	19	19
Provisions	380	406
Non-current liabilities	1 302	1 345
Total liabilities	2 799	2 846
Minority interest	6	6
Share capital	1 685	1 685
Treasury shares	0	0
Reserves	-748	-663
Total shareholders' equity	937	1 022
Total shareholders' equity and liabilities	3 742	3 874

Swiss International Air Lines (Group), Basel
Consolidated cash flow statement for the 1st quarter, condensed and unaudited

in CHF million	1 st Quarter 2004	1 st Quarter 2003
Net loss for the period	-78	-200
Adjustments for income and expenses not involving the movement of funds	83	58
Changes in net working capital (other than cash and cash equivalents)	-10	-55
Net cash used in operating activities	-5	-197
Net cash used in investing activities	-40	-43
Net cash used in financing activities	-45	-51
Increase/(decrease) in cash and cash equivalents	-90	-291
Effect of exchange-rate differences	1	2
Cash and cash equivalents at January 1	503	1 128
Cash and cash equivalents at March 31	414	835
Cash and cash equivalents comprise cash on hand, postal and bank account balances and short-term deposits with an original maturity of up to 90 days.		