



## **A positive quarterly result, but further improvements necessary**

**Swiss International Air Lines (Group) achieved a profit from operating activities (EBIT) of CHF 20 million for the third quarter of 2004 – the three-month period which is traditionally the strongest of the year. The result compares to a loss from operating activities (before restructuring costs) of CHF 62 million for the prior-year period. SWISS posted a profit from operating activities of CHF 1 million for the first nine months of 2004 (or a loss of CHF 67 million excluding the one time effect from the settlement of a legal case in the second quarter). By comparison, SWISS recorded a loss (before restructuring costs) from operating activities of CHF 408 million for the first nine months of 2003. The dramatic increase in fuel prices added approximately CHF 64 million to SWISS's operating expenses in the first nine months of 2004, and was thus a key factor for the delay in the SWISS turnaround process. Cash and cash equivalents amounted to CHF 361 million on September 30, 2004, without taking into account the additional funds from the new credit facility.**

SWISS generated consolidated income from operating activities of CHF 927 million in the third quarter of 2004, compared to CHF 1 076 million for the same period last year. The company recorded a profit from operating activities (EBIT) of CHF 20 million for the period, which compares to a loss from operating activities (before restructuring costs) of CHF 62 million for the prior-year period. For the first nine months of 2004 SWISS posted consolidated income from operating activities of CHF 2 695 million (2003: CHF 3 174 million) and an EBIT of CHF 1 million. Without taking into account the income from the settlement of a legal case in the second quarter, the company would however have posted a loss from operating activities of CHF 67 million for the first nine months of the year. In the comparable period of 2003 the loss from operating activities was CHF 408 million (before restructuring costs), or CHF 613 million respectively (after restructuring costs).

“Showing the first operating profit of CHF 20 million for the third quarter confirms our strategy.” says Christoph Franz, President and Chief Executive Officer. “SWISS still positions itself as a network carrier with strong intercontinental services centred on its Zurich hub. The result for the – traditionally strongest – third quarter is, despite the operating profit, below our expectations. In addition to unachieved savings in maintenance, record high fuel price levels burden with CHF 35 million our third-quarter results. SWISS is still in a position

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in which we must further significantly reduce our costs and consistently exploit all revenue earnings potential.”

SWISS expects to incur additional costs of CHF 140 million as a result of the rise in fuel prices for the full year 2004. This cost overrun of over one third will offset a considerable part of the gains achieved to date through our restructuring activities. While fuel usually accounts for between 12% and 14% of total expenditure, fuel costs amount to approximately 17% of SWISS's September operating expenses.

SWISS reduced its ordinary operating expenses by 22.9% in the first nine months of 2004. These costs amounted to CHF 2 762 million, compared to CHF 3 582 million for the previous year. The reduced income from operating activities as a result of the resizing of the route network was with 15.1% by far more moderate.

Net profit amounted to CHF 16 million for the third quarter of 2004, which compares to a consolidated loss of CHF 276 million for the same period last year. SWISS posted a consolidated loss of CHF 17 million for the first nine months of 2004, compared to a loss of CHF 609 million for the prior-year period.

#### **Cash and cash equivalents of CHF 361 million**

Cash and cash equivalents amounted to CHF 361 million on September 30, 2004, not taking into account the additional cash funds deriving from the recently closed credit facility. The balance sheet also showed fixed-term deposits of a further CHF 5 million. Cash and cash equivalents had stood at CHF 353 million (plus CHF 5 million in fixed-term deposits) at the end of June 2004; and SWISS had held cash and cash equivalents of CHF 503 million at the end of 2003.

Cash flow from operating activities (including CHF 68 million of cash-in during the third quarter, following the settlement of a prolonged legal case) totalled CHF 120 million for the first nine months of 2004. This compares to a negative cash flow of CHF 299 million for the prior-year period.

Cash flow from investing activities amounted to minus CHF 37 million for the first nine months of 2004. This included expenditure of approximately CHF 80 million on interior components, spare parts and consumable materials for the new Airbus A340. This amount was partially offset by a reduction in cash deposits connected to the return of surplus aircraft.

Net cash flow from financing activities totalled minus CHF 227 million for the first nine months of 2004. The cash outflow here comprised CHF 122 million of amortisation on aircraft leasing liabilities, CHF 112 million in loan repayments and CHF 43 million in ordinary interest payments on finance leases and other liabilities. The outflow was partially offset by a CHF 50 million increase in cash and cash equivalents through the utilisation of the credit facility with Barclays Bank on March 16, 2004.

#### **New credit facility strengthens liquidity base**

SWISS closed a definitive credit agreement with an international banking syndicate for a CHF 325 million secured credit facility at the end of October 2004. Of this, net additional liquidity of CHF 180 million will be directly available. The remaining CHF 145 million will initially serve as security on obligations currently held by SWISS. Once these obligations, which arise from certain aircraft lease agreements, have been met, the credit amount available to SWISS within the overall credit facility will be gradually increased, to CHF 290 million in June 2005 and to the full CHF 325 million in the course of 2006. The credit agreement has been concluded for a three-year period.

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“We are pleased to have concluded this definitive credit agreement with the banks involved,” said Christoph Franz following the signature of the contract. “With this enhanced liquidity base, we can finance our corporate turnaround and take the steps required to further strengthen our competitive position.”

#### **Shareholders' equity**

Group shareholders' equity amounted to CHF 991 million on September 30, 2004. The balance sheet equity ratio stood at 29.0%, an improvement of 1.5 percentage points on its June 30 level.

On August 31, 2004 major shareholders representing 86% of outstanding shares prolonged the existing lock-up agreement (under which they undertake not to dispose of the shares they acquired in the capital increase effected upon SWISS's foundation) until August 31, 2005.

#### **Load factors**

SWISS carried seven million passengers and some 223 000 tonnes of cargo during the first nine months of 2004. The company performed a total of 108 132 flights, which registered an average seat load factor of 75.2% – an improvement of 3.6 percentage points on the prior-year period. SWISS increased its load factor on its European network by 3.1 percentage points to 62.1%, while intercontinental services saw a 3.6-percentage-point increase to 80.9%.

While SWISS's long-haul business developed positively, load factors on European services are not satisfactory. Seat load factors sustained substantial declines on many routes compared to their prior-year equivalents, especially in the third quarter. Overall, seat load factor on the European network suffered a 2.8-percentage-point decline to 65.7% for this period. The no-frills carriers are clearly exerting pressure in both capacity and pricing terms, especially in the larger main markets.

Compared to its prior-year equivalents, yield – average revenue per revenue passenger kilometre – was 5.2% down for European services, but saw a 2.9% increase on intercontinental routes.

#### **The cargo business**

SWISS's cargo business continued to show favourable developments. Swiss WorldCargo carried approximately 223 000 tonnes of cargo in the first nine months of 2004, resulting in a cargo load factor (by volume) of 85.8%. This is a 2.2-percentage-point improvement compared to the prior-year period. Swiss WorldCargo continues to operate on a sustainable profit base offering sound prospects of medium- and long-term growth.

#### **Management structure and personnel numbers**

As of September 1 the new management structure (as announced together with the 2004 first half year results), which is more efficient and more market-oriented than before, was implemented. Most of the nominated executives have already assumed their tasks.

Total staff numbers (in full-time-equivalent terms) had declined to 6 964 by the end of September – 288 fewer than on June 30 and 1 108 (or 13.7%) fewer than at the end of 2003. Of these, 6 288 positions were with the parent company, 676 with various subsidiaries. The 6 964 full-time equivalent positions are occupied by 8 113 employees around the world.

**Further measures required**

A “rocky road” is how Christoph Franz describes the way ahead to the corporate turnaround. “We will need to further reassess all our internal and external cost generators in order to be and remain competitive in the present structure,” he continues. “There will be no taboos here. Needless to say, we will also be making every effort to increase our revenues.”

Various projects designed to help achieve the desired turnaround are currently being conducted under the Continuous Improvement SWISS or CIS programme. Thus, Executive Management will be meeting with union representatives to discuss substantial productivity improvements. Parallel to these efforts, negotiations are also being continued with the company’s suppliers.

Numerous actions in the sales area are expected to enhance SWISS’s market position, especially in Switzerland, and to raise revenues. The cost/benefit ratio of the SWISS European product is also being reviewed and regarding the regional traffic, the business performance of services from Geneva and Basel needs to be improved.

Further efforts are being made to better exploit the earnings potential at SWISS’s Zurich hub. A project to optimise the present network and hub structure has been launched to this end. In addition, specific action is planned in revenue management – i.e. in capacity management and pricing policy terms – to improve revenue results.

Looking further ahead, a harmonizing of the aircraft fleet should lead to cost reduction. Additional savings potential should also be identified in the administrative area; and, last but not least, Swiss WorldCargo should further increase its financial contributions to overall Group results.

**This media release, a presentation with the financial key figures and our latest Letter to Shareholders are also available on our [www.swiss.com](http://www.swiss.com) website under “About SWISS” > “Investor Relations”.**

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**Swiss International Air Lines (Group), Basel**  
**Consolidated income statement 1<sup>st</sup> - 3<sup>rd</sup> Quarter, unaudited**

in CHF million	1 <sup>st</sup> - 3 <sup>rd</sup> Quarter 2004	1 <sup>st</sup> - 3 <sup>rd</sup> Quarter 2003
Revenue from scheduled services	2 191	2 571
Revenue from cargo services	323	380
Revenue from charter services	76	108
Revenue from other operations	34	39
<b>Total revenue</b>	<b>2 624</b>	<b>3 098</b>
Other operating income	71	76
<b>Total income from operating activities</b>	<b>2 695</b>	<b>3 174</b>
Cost of materials	-751	-994
Cost of services	-902	-1 124
Personnel expenses	-589	-791
Depreciation and amortisation	-222	-180
Profit/loss on disposal of fixed and intangible assets	0	-12
Other operating expenses (net)	-230	-481
<b>Profit/(loss) from operating activities (EBIT) before restructuring costs</b>	<b>1</b>	<b>-408</b>
Restructuring costs	0	-205
<b>Profit/(loss) from operating activities (EBIT) after restructuring costs</b>	<b>1</b>	<b>-613</b>
Income from associates	1	1
Financial expenses	-40	-36
Financial income	22	43
<b>Loss before tax (EBT)</b>	<b>-16</b>	<b>-605</b>
Income taxes	-1	-3
<b>Loss after tax</b>	<b>-17</b>	<b>-608</b>
Minority interest	0	-1
<b>Net loss for the period</b>	<b>-17</b>	<b>-609</b>
in CHF		
Earnings per share (basic)	-0.32	-11.58
Earnings per share (fully diluted)	-0.32	-11.58

Earnings for the first nine months of 2004 are comparable to their prior-year equivalents only to a limited degree, 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 nine months of 2004 cannot be meaningfully compared to those of the prior-year period.

Provisions amounting to CHF 68 million which were no longer required following the settlement of a protracted legal dispute were released in the second quarter of 2004 and resulted in a corresponding reduction in "Other operating expenses". This amount was shown as cash flow in the third-quarter period, in accordance with its value date.

**Swiss International Air Lines (Group), Basel**  
**Consolidated income statement 3<sup>rd</sup> quarter, unaudited**

in CHF million	3 <sup>rd</sup> quarter 2004	3 <sup>rd</sup> quarter 2003
Revenue from scheduled services	751	856
Revenue from cargo services	106	120
Revenue from charter services	37	51
Revenue from other operations	12	17
<b>Total revenue</b>	<b>906</b>	<b>1 044</b>
Other operating income	21	32
<b>Total income from operating activities</b>	<b>927</b>	<b>1 076</b>
Cost of materials	-255	-326
Cost of services	-296	-357
Personnel expenses	-191	-246
Depreciation and amortisation	-74	-64
Other operating expenses (net)	-91	-145
<b>Profit/(loss) from operating activities (EBIT) before restructuring costs</b>	<b>20</b>	<b>-62</b>
Restructuring costs	0	-205
<b>Profit/(loss) from operating activities (EBIT) after restructuring costs</b>	<b>20</b>	<b>-267</b>
Income from associates	0	0
Financial expenses	-13	-11
Financial income	9	4
<b>Profit/(loss) before tax (EBT)</b>	<b>16</b>	<b>-274</b>
Income taxes	0	-1
<b>Profit/(loss) after tax</b>	<b>16</b>	<b>-275</b>
Minority interest	0	-1
<b>Net profit/(loss) for the period</b>	<b>16</b>	<b>-276</b>
in CHF		
Earnings per share (basic)	0.30	-5.25
Earnings per share (fully diluted)	0.29	-5.25

The earnings results for the third quarter of 2004 are only comparable to their prior-year equivalents to a limited degree, 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 third quarter of 2004 cannot be meaningfully compared to those of the prior-year period.

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

in CHF million	September 30, 2004	December 31, 2003
Cash and cash equivalents	361	503
Fixed-term deposits (3-12 months)	5	0
Derivative assets	8	52
Trade receivables	332	362
Other receivables	44	163
Inventories	28	33
Prepaid expenses and accrued income	23	34
<b>Current assets</b>	<b>801</b>	<b>1 147</b>
Aircraft fleet	2 201	2 247
Property, plant and equipment	220	246
Intangible assets	19	19
Investments in associates	5	6
Loans and other investments	167	208
Deferred tax assets	1	1
<b>Non-current assets</b>	<b>2 613</b>	<b>2 727</b>
<b>Total assets</b>	<b>3 414</b>	<b>3 874</b>
Trade payables	256	277
Interest-bearing liabilities	225	286
Derivative liabilities	1	20
Other payables	50	54
Unearned transportation revenue	441	519
Accrued expenses and prepaid income	318	345
<b>Current liabilities</b>	<b>1 291</b>	<b>1 501</b>
Interest-bearing liabilities	880	920
Employee benefit obligations	20	19
Provisions	228	406
<b>Non-current liabilities</b>	<b>1 128</b>	<b>1 345</b>
<b>Total liabilities</b>	<b>2 419</b>	<b>2 846</b>
<b>Minority interest</b>	<b>4</b>	<b>6</b>
Share capital	948	1 685
Treasury shares	0	0
Reserves	43	-663
<b>Total shareholders' equity</b>	<b>991</b>	<b>1 022</b>
<b>Total shareholders' equity and liabilities</b>	<b>3 414</b>	<b>3 874</b>

**Swiss International Air Lines (Group), Basel**  
**Consolidated cash flow statement 1<sup>st</sup> - 3<sup>rd</sup> Quarter, unaudited and condensed**

in CHF million	1 <sup>st</sup> - 3 <sup>rd</sup> Quarter 2004	1 <sup>st</sup> - 3 <sup>rd</sup> Quarter 2003
<b>Net loss for the period</b>	-17	-609
Adjustments for income and expenses not involving the movement of funds	252	189
Changes in net working capital (other than cash and cash equivalents)	-115	121
<b>Cash flow from operating activities</b>	<b>120</b>	<b>-299</b>
<b>Cash flow from investing activities</b>	<b>-37</b>	<b>-225</b>
<b>Cash flow from financing activities</b>	<b>-227</b>	<b>30</b>
Increase/(decrease) in cash and cash equivalents	-144	-494
Effect of exchange-rate differences	2	-20
Cash and cash equivalents as of January 1	503	1 128
Cash and cash equivalents as of September 30	361	614

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.