



SWISS improves first-quarter EBIT result

Swiss International Air Lines (Group) generated total income from operating activities of CHF 853 million for the first three months of 2005 (first quarter 2004: CHF 846 million). The first-quarter result from operating activities (EBIT) before restructuring costs amounted to minus CHF 10 million, which compares to minus CHF 69 million for the prior-year period. The 2005 first-quarter total income and EBIT results include non-recurring income of CHF 43 million deriving from a transfer of slots at London Heathrow Airport to British Airways. Cash and cash equivalents totalled CHF 506 million on March 31, compared with CHF 481 million at the end of last year.

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Financial expenses for the first quarter of 2005 amounted to CHF 30 million (prior year: CHF 13 million) and comprised ordinary interest payments on financial liabilities and CHF 14 million in non-cash currency exchange losses on outstanding debt. The currency losses derive from the fact that the US dollar gained in strength against the Swiss franc in the course of the first-quarter period. The financial income of CHF 2 million (prior year: CHF 5 million) for the period consists of ordinary interest income from cash and cash equivalents and fixed-term deposits.

The consolidated net result for the quarter amounted to a loss of CHF 44 million – a CHF 34 million improvement on the CHF 78 million loss incurred for the first three months of 2004.

“This result means that we have also made progress in what is traditionally the weakest quarter of the year in traffic volume terms,” says SWISS President & Chief Executive Officer Christoph Franz. “But our earnings levels and our cost structures are still less than satisfactory. And the swift and consistent pursuit of our current restructuring programme will remain our top pri-

Swiss International Air Lines (Group), Basel Interim financial statements for the first quarter of 2005

ority throughout the coming months. But SWISS will not only be further tightening its corporate belt. We have also launched a comprehensive quality drive in the interests and to the benefit of all our customers.”

A positive CHF 7 million first-quarter cash flow from operating activities

Cash flow from operating activities amounted to CHF 7 million for the first three months of 2005. This compares to a negative cash flow of CHF 5 million for the prior-year period. The CHF 12 million improvement is attributable to the better operating result.

Cash flow from investing activities was also positive, thanks to divestments effected during the period. The CHF 96 million net cash inflow compares to a net cash outflow of CHF 40 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 28 million; and the reduction of various cash deposits with suppliers produced a cash inflow of a further CHF 33 million. A cash outflow of CHF 13 million was incurred through investments in interior components, rotable spares and consumables for the aircraft fleet. Other divestments and interest received resulted in a further cash inflow of CHF 5 million.

Cash flow from financing activities amounted to minus CHF 75 million, which compares to minus CHF 45 million for the prior year. A total of CHF 12 million of liquid funds was used to amortise aircraft finance lease liabilities. CHF 48 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 15 million stemmed from ordinary interest payments on finance lease liabilities.

Cash and cash equivalents amounted to CHF 506 million on March 31, 2005. The balance sheet also showed fixed-term deposits of CHF 3 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 83 million in liquid funds still available from existing credit facilities at the end of March 2005. This amount varies depending, among other things, on the exchange rates of the US dollar and the Euro against the Swiss franc.

SWISS has currently hedged around 34% of its expected fuel needs for the rest of 2005. The record high prices of jet fuel created a generally extremely difficult market environment, and are likely to continue to hinder the company's turnaround endeavours in 2005. While kerosene prices again showed steep increases towards the end of the first-quarter period, the full impact of these higher fuel prices will not be felt until the second quarter.

Equity ratio stable

Group shareholders' equity amounted to CHF 843 million on March 31, 2005, having stood at CHF 852 million¹ at the end of 2004. The equity ratio remained unchanged at 27.2%.

¹ 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.

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Further reduction in net financial debt

Net financial debt saw a further substantial reduction in the course of the first quarter, declining CHF 64 million from the CHF 594 million at the end of 2004 to CHF 530 million on March 31, 2005. In addition to the positive cash flow from operating activities, the reduction achieved was mainly due to the divestments effected and the resulting net cash inflow from investing activities.

Improved load factors and higher yields

Load factor: SWISS carried roughly 2.2 million passengers in the first quarter of 2005. The company performed a total of 34 309 flights, which registered an average seat load factor of 74.2% (prior year: 71.6%). On the European network, available-seat-kilometre (ASK) capacity was reduced by 2.6% year-on-year while seat load factor increased 3.2 percentage points to 58.7%. Seat load factor on intercontinental routes rose to 81.6%, an increase of 3.3 percentage points, while ASK capacity was 14.4% below prior-year levels.

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

Yield: Yields (revenue per passenger kilometre) remained under pressure throughout the European air transport sector in the first-quarter period, with the market still subject to persistent overcapacity and continuing fare erosion. SWISS suffered a 3.4% year-on-year decline in yield on its European network for the period. First-quarter yield on intercontinental services, by contrast, was a 4.4% improvement on its prior-year equivalent.

SWISS also 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 quarter of 2005 was an improvement of 7.8% on the same period a year ago. First-quarter RASK showed a 2.3% year-on-year improvement on European services and an 8.1% improvement on intercontinental routes. 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 very 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 surcharge which SWISS has been levying on its tickets since summer 2004. In line with the general industry practice, SWISS introduced these surcharges last year in response to the steep rise in jet fuel prices, and has since gradually adjusted them in line with fuel price trends, most recently on April 1, 2005.

An improved cost structure

SWISS substantially reduced its costs in the course of 2004 in its endeavours to establish a cost base which would enable it to compete more effectively. The achievements to date have, however, been largely neutralised by the present high price of aviation fuel. The high price of jet fuel burdened results for the first quarter of 2005 with additional costs of CHF 54 million compared to the same period last year. Cost per available seat-kilometre (CASK) rose accordingly by 5.6%.

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, however, the effect was the opposite: an increase in the proportion of European production led to an automatic

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increase in systemwide CASK. This is because CASK is higher for European services than for intercontinental flights, in view of the shorter distances involved.

Irrespective of these mechanisms, CASK must be further reduced – especially in view of the price erosion that has continued into 2005 and the still extremely difficult situation on the jet fuel market, where price trends continue to depress results industrywide. SWISS's performance also felt the adverse effect of an increase in first-quarter personnel cost per full-time employee, which was 2.9% up on the prior-year period.

SWISS continues to implement its current cost reduction programme throughout all areas of its organisation. And, in doing so, it continues to put a particular focus on maintenance, repair & overhaul, on ground handling and on raising internal productivity.

Further results-enhancement measures

Independently of its planned integration into the Lufthansa Group, SWISS continues to consistently implement the actions announced in January 2005 to create a profitable and competitive basis for growth:

Substantial cost savings will derive from the outsourcing on March 1 of the company's IT operations to Swisscom IT Services and the intensified collaboration with Mindpearl, SWISS's fully-owned call centre subsidiary. Three of SWISS's four call centres in Switzerland will cease operations under the new arrangement. These actions will have no impact on SWISS customers, who can continue to make their reservations in German, French, English or Italian at any time of the day or night.

The reduction of the SWISS regional aircraft fleet by at least 15 aircraft is a major step towards establishing competitive production structures in every market segment. Most of the routes affected by this regional resizing should be taken over by partner airlines, to ensure that customers continue to enjoy an attractive range of air services.

The present Collective Labour Agreement (CLA) negotiations with all the company's unions have resulted in an agreement between SWISS and the representatives of the KV Switzerland, VPOD Air Transport and PUSH unions on a new CLA for Swiss-based ground personnel which entered into effect on April 1. The new CLA was also ratified by the GATA ground-staff union at the end of April. The partners to the new CLA also agreed on the simultaneous entry into effect of a new severance benefits plan. Negotiations continue with the Kapers cabin staff union and the Aeropers pilots' union. SWISS has served due notice to terminate its CLA with the Swiss Pilots Association (SPA) cockpit crew union effective October 31, 2005. The SPA sought new arbitration at the beginning of May. The company is currently considering this move and its ramifications.

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.

Personnel numbers

The average number of personnel employed (in full-time equivalents or FTEs) in the first quarter of 2005 amounted to 6 513, a decline of 1 118 on the 7 631 employed during the same period last year. SWISS employed a total of 6 442 FTEs on March 31, 2005 – 183 fewer than at the end of 2004. The 6 442 FTE positions are occupied by 7 687 employees around the world. The restructuring measures announced in January 2005 call for the elimination of a total of 800 to 1 000 positions.

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A clear positioning as a quality airline

SWISS has launched a comprehensive quality drive in the air and on the ground, to further enhance customer benefit and strengthen its position in its home Swiss market:

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. The new arrangement, which was introduced with the start of the summer timetable period on March 27, enhances customer comfort and convenience and tangibly strengthens SWISS's presence and profile as the airport's home carrier.

Inflight food and drink will also be included in the price of the ticket for Swiss Economy passengers on European flights from May 25 onwards. The free European Economy Class inflight foodservice, with products provided by Nestlé, is a central element in the present quality drive.

The new seats now installed on the SWISS Airbus A320 European fleet are a further key product improvement. The enhancements here extend to keeping the middle seat free in the A320's Swiss Business cabin to offer more space and greater privacy for business travel customers. The new seats also provide substantially more space in the Swiss Economy cabin. And, by raising the planning flexibility of the capacity concerned, the investment in the new seating will substantially improve overall operating efficiency.

With the introduction in January of its new six-times-weekly Boeing Business Jet service, SWISS now offers an attractive product on the Zurich-New York Newark route that is tailored to the business traveller's needs. The Boeing 737-800 aircraft, which is operated by PrivatAir, seats 56 passengers.

SWISS is still SWISS. With Lufthansa.

The Board of Directors of Swiss International Air Lines Ltd. and the Supervisory Board of Deutsche Lufthansa AG have approved the business model jointly devised by the two companies for SWISS's integration into the Lufthansa Group. The aim of the integration is to ensure the maintenance of the best possible network of European and intercontinental air services for Switzerland and its economy, especially through the provision of direct air links. Its assimilation into the global air travel product offered by Lufthansa and the Star Alliance should also further enhance SWISS's customer appeal. Key elements of the planned integration are the retention of the quality SWISS brand and SWISS's continuation as a separate Swiss-based airline operating from its efficient and effective Zurich hub.

Its planned integration into the Lufthansa aviation group provides SWISS with new strategic perspectives, in terms of both the attractiveness of its products and services to its customers and the cost-reduction potential offered in areas such as purchasing or the prospect of securing substantially more favourable financing terms. SWISS will be actively pursuing such avenues once the proposed integration has received the requisite approval from the relevant competition authorities.

This media release and the latest Letter to Shareholders are also available on our www.swiss.com website under "About SWISS > Investor Relations".

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Swiss International Air Lines (Group), Basel
Consolidated income statement 1st Quarter, unaudited

in CHF million	1 st quarter 2005	1 st quarter 2004
Revenue from scheduled services	654	688
Revenue from cargo services	109	109
Revenue from charter services	13	12
Revenue from other operations	11	10
Total revenue	787	819
Gain on disposal of fixed and intangible assets	4	0
Other operating income	62	27
Total income from operating activities	853	846
Cost of materials	-235	-234
Cost of services	-285	-305
Personnel expenses	-180	-202
Depreciation and amortisation	-69	-72
Loss on disposal of fixed and intangible assets	-2	0
Other operating expenses	-92	-102
Loss from operating activities (EBIT) before restructuring costs	-10	-69
Restructuring costs	-6	0
Loss from operating activities (EBIT) after restructuring costs	-16	-69
Income from associates	1	0
Financial expenses	-30	-13
Financial income	2	5
Loss before tax (EBT)	-43	-77
Income taxes	-1	-1
Net loss for the period	-44	-78
Attributable to:		
Equity holders of the parent	-44	-78
Minority interests	0	0
in CHF		
Earnings per share (basic)	-0.82	-1.48
Earnings per share (fully diluted)	-0.82	-1.48

This quarterly 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 balance sheet, unaudited

in CHF million	March 31, 2005	31. December 2004 ¹
Cash and cash equivalents	506	481
Fixed-term deposits (3-12 months)	3	4
Derivative assets	26	11
Trade receivables	312	233
Other receivables	26	21
Inventories	29	29
Prepaid expenses and accrued income	27	29
Current assets	929	808
Aircraft fleet	1 826	1 927
Property, plant and equipment	184	193
Intangible assets	17	18
Investments in associates	5	5
Loans and other investments	138	171
Deferred tax assets	1	1
Non-current assets	2 171	2 315
Total assets	3 100	3 123
Trade payables	222	245
Interest-bearing liabilities	183	244
Derivative liabilities	15	22
Other payables	60	33
Unearned transportation revenue	438	385
Accrued expenses and prepaid income	304	296
Current liabilities	1 222	1 225
Interest-bearing liabilities	814	831
Employee benefit obligations	12	11
Provisions	209	204
Deferred tax liabilities	0	0
Non-current liabilities	1 035	1 046
Total liabilities	2 257	2 271
Minority interest	4	4
Share capital	960	948
Treasury shares	0	0
Reserves	-121	-100
Total shareholders' equity	843	852
Total shareholders' equity and liabilities	3 100	3 123

¹ This quarterly report incorporates for the first time 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 cash flow statement 1st Quarter, unaudited and condensed

in CHF million	1 st Quarter 2005	1 st Quarter 2004 ²
Net loss for the period	-44	-78
Adjustments for income and expenses not involving the movement of funds	27	53
Changes in net working capital (other than cash and cash equivalents)	24	20
Cash flow from operating activities	7	-5
Cash flow from investing activities	96	-40
Cash flow from financing activities	-75	-45
Increase/(decrease) in cash and cash equivalents	28	-90
Effect of exchange-rate differences	-3	1
Cash and cash equivalents as of January 1	481	503
Cash and cash equivalents as of March 31	506	414

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.

² 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 quarter of 2004 reflect these changes as if they had already been in effect.