



SWISS maintains first half-year EBIT levels in a difficult environment

Swiss International Air Lines (Group) generated total income from operating activities of CHF 1 769 million for the first six months of 2005 (first half-year 2004: CHF 1 768 million). The result from operating activities (EBIT) before restructuring costs for the first half-year amounted to minus CHF 9 million, which compares to minus CHF 19 million for the prior-year period. The steep rise in fuel costs 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. This has for the most part neutralised the positive results achieved from SWISS's current restructuring process, and substantially hindered progress on its turnaround. SWISS held cash and cash equivalents totalling CHF 497 million on June 30, compared with CHF 481 million at the end of 2004.

Swiss International Air Lines (Group) generated total income from operating activities of CHF 1 769 million in the first six months of 2005, compared to CHF 1 768 million for the same period last year. The result from operating activities (EBIT) before restructuring costs amounted to a loss of CHF 9 million, 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 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.

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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 prior-year period. 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 made further substantial progress in the first six months of 2005,” says President and Chief Executive Officer Christoph Franz. “The steep increases in fuel costs and continuing fare erosion have become major challenges for the entire airline industry. But 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 restructuring is designed to achieve has, however, been substantially hindered by the additional cost of jet fuel. The further implementation of our restructuring measures remains our highest priority – with Lufthansa, too.”

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 also 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, rotable 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.

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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 million¹ (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

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.

Swiss International Air Lines (Group), Basel

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RASK for the first six months of 2005 was virtually unchanged (with a year-on-year improvement 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, however, 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 continued 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.

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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 comprehensive 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

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.

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

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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 take-off 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, interlinked frequent flyer programmes, lounge access and more.

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 for the first half-year, unaudited

in CHF million	1 st half 2005	1 st 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
Total revenue	1 678	1 718
Gain on disposal of fixed and intangible assets	6	0
Other operating income	85	50
Total income from operating activities	1 769	1 768
Cost of materials	-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	-179	-139
Loss from operating activities (EBIT) before restructuring costs	-9	-19
Restructuring costs	-6	0
Loss from operating activities (EBIT) after restructuring costs	-15	-19
Income from associates	1	1
Financial expenses	-80	-27
Financial income	6	13
Loss before tax (EBT)	-88	-32
Income taxes	-1	-1
Net loss for the period	-89	-33
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	2 nd quarter 2005	2 nd 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
Total revenue	891	899
Gain on disposal of fixed and intangible assets	2	0
Other operating income	23	23
Total income from operating activities	916	922
Cost of materials	-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	-87	-37
Profit from operating activities (EBIT) before restructuring costs	1	50
Restructuring costs	0	0
Profit from operating activities (EBIT) after restructuring costs	1	50
Income from associates	0	1
Financial expenses	-50	-14
Financial income	4	8
Profit/(loss) before tax (EBT)	-45	45
Income taxes	0	0
Net profit/(loss) for the period	-45	45
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

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

in CHF million	June 30, 2005	December 31, 2004 ¹
Cash and cash equivalents	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
Current assets	980	808
Aircraft fleet	1 789	1 927
Property, plant and equipment	179	193
Intangible assets	15	18
Investments in associates	6	5
Loans and other investments	133	171
Deferred tax assets	1	1
Non-current assets	2 123	2 315
Total assets	3 103	3 123
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
Current liabilities	1 291	1 225
Interest-bearing liabilities	792	831
Employee benefit obligations	12	11
Provisions	189	204
Deferred tax liabilities	0	0
Non-current liabilities	993	1 046
Total liabilities	2 284	2 271
Share capital	961	948
Treasury shares	0	0
Reserves	-145	-100
Minority interest	3	4
Total shareholders' equity	819	852
Total shareholders' equity and liabilities	3 103	3 123

¹ 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 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, unaudited and condensed

in CHF million	1 st half 2005	1 st half 2004 ¹
Net loss for the period	-89	-33
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
Cash flow from operating activities	113	3
Cash flow from investing activities	87	-37
Cash flow from financing activities	-190	-124
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.

¹ 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.