



Still a substantial net loss, despite an improved EBIT result

Swiss International Air Lines (Group) increased its total income from operating activities to CHF 2 767 million for the first nine months of 2005 (prior year: CHF 2 695 million) and reported earnings before interest and taxes (EBIT) before restructuring costs of CHF 24 million (prior year: CHF 1 million). However, the net loss of CHF 81 million reported for the period was substantially higher than the CHF 17 million loss of the prior year period. This is due to non-cash currency exchange value adjustments on outstanding US dollar-denominated debt of CHF 55 million and restructuring costs amounting to CHF 10 million. Fuel prices, which remain at record high levels, had a substantial adverse impact on results.

EBIT before restructuring costs for the third quarter of 2005 – traditionally the strongest in traffic terms – amounted to CHF 33 million (prior year: CHF 20 million), while net profit for the period totalled CHF 8 million (prior year: CHF 16 million). SWISS held cash and cash equivalents of CHF 532 million on September 30, 2005 (compared with CHF 481 million at the end of 2004).

SWISS increased its total income from operating activities to CHF 2 767 million for the first nine months of 2005 (prior year: CHF 2 695 million) and posted earnings before interest and taxes (EBIT) before restructuring costs of CHF 24 million (prior year: CHF 1 million). The high cost of jet fuel eroded an additional CHF 175 million from the EBIT result for the first nine months of 2005 compared to the prior-year period. In a tough competitive environment, little more than a third of these additional costs could be recouped through the fuel surcharges levied on passenger air tickets. Cost of materials (excluding the additional fuel costs) for the period was reduced by approximately 15% year-on-year, while seat-kilometre production was lowered by a far smaller 5.2%. The EBIT result includes a third-quarter impairment of CHF 45 million on the regional aircraft fleet. Operating income and EBIT also 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 first nine months of 2004 include CHF 68 million stemming from the settlement of the Holco legal case.

The net result for the first nine months of 2005 includes restructuring costs of CHF 10 million. These were incurred in connection with the partial reduction of personnel surplus to requirements in the cockpit crew corps and the reorganisation of the company's call centres. The costs of the restructuring programme announced in January 2005, which envisages a work-

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force reduction by 800 to 1 000 positions, are only partly included in the present results. The negotiations with the unions of the flying personnel, the outcome of which will have a major influence on the associated restructuring costs, are yet to be completed.

EBIT after restructuring costs for the first nine months of 2005 thus amounted to CHF 14 million (prior year: CHF 1 million).

EBIT before restructuring costs for the third quarter of 2005 totalled CHF 33 million (prior-year quarter: CHF 20 million). The year-on-year improvement in third-quarter results was achieved primarily through the higher revenues generated: revenues from scheduled services, charter services and cargo were all improvements on their prior-year levels, in some cases substantially so.

Financial expenses for the first nine months of 2005 amounted to CHF 103 million (prior year: CHF 40 million) and comprised ordinary interest payments on financial liabilities and CHF 55 million in currency exchange value adjustments on outstanding US dollar-denominated debt. This book loss derives from the fact that the US dollar gained substantially in strength against the Swiss franc over the first nine months of 2005. The CHF 8 million financial income for the period (prior year: CHF 22 million, including CHF 16 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 nine months of 2005 amounted to a loss of CHF 81 million, which compares to a net loss of CHF 17 million for the prior-year period. The higher net loss, despite an improved EBIT result, is due primarily to the above-mentioned currency exchange-related value adjustments and to restructuring costs. As in 2004, results are expected to weaken again for the fourth quarter in view of the traditionally lower seasonal demand in the autumn and winter months. SWISS expects to post a significant net loss in the fourth quarter 2005.

“In posting a positive operating result for the third quarter of 2005, SWISS has confirmed the progress it has made in its turnaround process,” says Christoph Franz, the company’s President and Chief Executive Officer, “especially since this EBIT improvement was achieved in an extremely demanding competitive environment and against fuel prices that had climbed to record levels. At the same time, the fact that we continue to report a net loss underlines that we must continue to consistently pursue our restructuring and our ongoing Collective Labour Agreement negotiations with our flying personnel.”

A positive CHF 188 million cash flow from operating activities

Cash flow from operating activities amounted to CHF 188 million for the first nine months of 2005. This compares to a cash flow of CHF 109 million for the prior-year period. As in the previous quarter, the CHF 79 million increase is attributable to the improved EBIT result and to various actions taken to improve working capital management.

Cash flow from investing activities was positive, thanks to divestments effected during the period. The CHF 91 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 46 million; and the reduction of various cash deposits produced a cash inflow of a further CHF 40 million. A cash outflow of CHF 47 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 9 million.

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Cash flow from financing activities amounted to minus CHF 219 million, which compares to minus CHF 227 million for the prior-year period. A total of CHF 128 million of liquid funds was used to amortise aircraft finance lease liabilities. CHF 47 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 43 million stemmed from ordinary interest payments on finance lease liabilities.

Cash and cash equivalents amounted to CHF 532 million on September 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 225 million in liquid funds available from existing banking credit facilities at the end of September 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 74% of its expected fuel needs for the rest of 2005. The record high prices of jet fuel created additional pressure to consistently and effectively pursue the present restructuring process, and to identify and exploit further cost-saving and revenue-earning potential.

Equity ratio at 27.5%

Group shareholders' equity amounted to CHF 840 million on September 30, 2005 (equity ratio: 27.5%), having totalled CHF 852 million¹ (equity ratio: 27.3%) at the end of 2004.

Further reduction in net financial debt

Net financial debt was further reduced in the first nine months of 2005, by CHF 195 million or around one third from the CHF 594 million at the end of 2004 to CHF 399 million on September 30, 2005. In addition to the positive cash flow from operations, the reduction was due in particular to the funds released by divestment activities.

Improved load factors, but yields under pressure in Europe

Load factor: SWISS carried 7.33 million passengers in the first nine months of 2005, an increase of 4.6% on the 7.01 million of the prior-year period. The company performed a total of 102 670 flights, which registered an average seat load factor of 79.1% (prior year: 75.2%). On the European network, available seat kilometre (ASK) capacity was up 0.9% from its prior-year level, while European seat load factor for the period rose 4.7 percentage points to 66.8%. Seat load factor on intercontinental routes rose 4.1 percentage points to 85.0%, an increase that was achieved against a 7.8% reduction in intercontinental ASK capacity.

Systemwide seat load factor for the third quarter of 2005 stood at 83.2% (prior year: 78.6%). Seat load factor on European services amounted to 72.4%, up 6.7 percentage points. For its intercontinental routes, SWISS posted a third-quarter seat load factor of 88.5%, up 4.0 percentage points on the prior-year period.

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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Cargo load factor (by volume) for the first nine months of 2005 amounted to 85.7%, virtually unchanged (at 0.1 percentage points down) from its prior-year level. Swiss WorldCargo has thus so far successfully resisted the general decline in air cargo demand.

While SWISS's long-haul business has been showing very positive trends in both seat load factor and revenues for some time, SWISS has also significantly improved the seat load factors on its European services over the past few months. Nevertheless, the capacity and pricing pressures exerted by the low-cost carriers continued to increase, especially in the larger prime European markets. While SWISS was able to improve yields on its intercontinental services, yields for the European network continued to decline.

Yield: Yields (revenue per passenger kilometre) remained under pressure throughout the European air transport sector in the first nine months of 2005. Despite the fuel surcharges levied, SWISS reported a 6.4% year-on-year decline in yield for the period on its European network. Overcapacities which are still distorting the market led to a continuing erosion of fares. Yield on SWISS's intercontinental services was a 6.9% improvement on its prior-year equivalent. However, the record fuel prices had a disproportionately strong impact on intercontinental route results.

With its competitive pricing policy, SWISS managed to stem – for the first time – the loss of market share which had been experienced over the past few years. Market share was stabilised at the Zurich Airport hub, and was substantially increased on certain routes.

SWISS also continued to see 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. RASK for SWISS's European services showed a slight 0.8% year-on-year improvement for the first nine months of 2005, while RASK for intercontinental services rose by a substantial 12.2%. As a result, systemwide RASK for the first nine months of 2005 was 8.3% up on the prior-year period. This RASK increase is also due to year-on-year shifts in the relative contributions of intercontinental and European services to overall ASK capacity: because RASK is lower on long intercontinental routes than on the European network, 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, most recently on September 23.

Unit costs still too high

SWISS has substantially reduced its costs compared to those of 2004, but still has a cost position which is too high in comparison with its competitors. Excluding the additional costs incurred through high jet fuel prices, SWISS's cost per available seat kilometre (CASK) for the first nine months of 2005 was 3.6% below its prior-year equivalent. But, as was explained in the SWISS 2005 Half-Year Report, the achievements to date have been largely neutralised by the present high cost of aviation fuel. As a result, CASK for the first nine months was 4.1% higher than for the same period last year; and the additional costs due to the high fuel price even increased in the third-quarter period.

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

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Irrespective of these mechanisms, SWISS's CASK must be further reduced – especially in view of continuing losses, the persistent price erosion and the still tense and unpredictable situation on the jet fuel market. The situation is exacerbated by the fact that personnel expenses per full-time employee for the first nine months of 2005 were 4.4% up on the prior-year period. The rise is due largely to the annual salary increases that are automatically granted to flying personnel under the current Collective Labour Agreements.

SWISS continues to consistently implement its present cost reduction programme throughout all areas of its organisation. In doing so, it is putting a particular focus on catering, on ground services (handling) and on raising internal productivity.

Group personnel numbers

The average number of employees (in full-time equivalents or FTEs) in the first nine months of 2005 amounted to 6 446, a decline of 864 on the 7 310 employed during the same period last year. SWISS employed a total of 6 321 FTEs on September 30, 2005 – 304 fewer than at the end of 2004. The 6 321 FTE positions were occupied by 7 433 employees.

Milestones achieved in the present restructuring programme

SWISS continues to consistently implement the measures announced in January 2005 to provide the company with a sustainable competitive position. The sustainable profitability which these actions are designed to achieve should provide adequate scope for investment and future growth. As announced, the restructuring programme should be completed in the course of 2006. SWISS's integration into the Lufthansa Group also offers new strategic prospects in cost synergy terms.

After protracted negotiations, SWISS and SR Technics concluded their arbitration case on the interpretation of commercial aspects of their current technical services agreement with an out-of-court agreement at the end of July. The new collaborative basis provides SWISS with significant cost savings in the maintenance of its Airbus fleet. SWISS and SR Technics have also extended the present technical services agreement (which was due to expire in 2009) for a further three years.

Another milestone was reached in the current restructuring endeavours with the decision to transfer SWISS's European regional flight operations into a separate company within the SWISS Group. Having received its operating permit from the Swiss Federal Office for Civil Aviation, "Swiss European Air Lines" commenced operations on November 1. This fully-owned SWISS subsidiary will operate wet-lease services in the European market on behalf of its parent company and under the SWISS brand. In doing so, it will make a substantial contribution to enhancing SWISS's competitiveness. With its clear structures and transparent costs, the new organisation should also help support the upcoming investment in a new regional fleet and lay a firm foundation for the future growth of SWISS's regional business.

By the start of the 2005/06 winter schedules, SWISS had reduced its fleet by 11 aircraft in the course of 2005. Despite this downsizing, however, SWISS continues to offer its customers an attractive range of air services and connections, through its collaborations with various partner airlines, and with the Lufthansa Group in particular.

Negotiations are continuing with the cabin crew unions and the Aeropers pilots' union. The Swiss Pilots Association (SPA) sought new arbitration proceedings at the beginning of May. SWISS did not accept the SPA's declaration of affiliation to the Aeropers Collective Labour Agreement. SWISS will continue to strive to find viable and forward-looking solutions with all its social partners that help secure jobs in the longer term.

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Integration into the Lufthansa Group proceeding as planned

Having acquired over 99% of SWISS's share capital, AirTrust AG has exceeded the threshold shareholding required to initiate a squeeze-out procedure to acquire the remaining shares and has now initiated this, offering cash compensation for the shares still publicly held. SWISS is confident that this procedure can be concluded by the end of 2005. Lufthansa has increased its shareholding in AirTrust AG from the original 11% to 49%.

The Swiss Air Transport Foundation, which is domiciled in Zug, was established at the beginning of October. The Foundation will monitor the development of air transport and its structures in Switzerland and the integration of SWISS into the Lufthansa Group, ensuring that Swiss interests are duly represented and appropriately respected.

Above all, however, SWISS's continued integration into the Lufthansa Group has provided key innovations for customers. Thus, for example, SWISS was able to announce at the beginning of October that its Swiss TravelClub frequent flyer programme would be incorporated into Miles & More, Europe's leading frequent flyer programme, on April 1, 2006. SWISS customers will therefore be able to earn and redeem miles with an even wider range of airlines and further programme partners. All Swiss TravelClub mileage balances will be transferred one-for-one to Miles & More, and Swiss TravelClub Silver and Gold status will be duly recognised in the Miles & More programme. With Miles & More as its new frequent flyer programme, SWISS is also taking a further key step towards membership of Star Alliance.

The range of benefits offered to customers through the ever-closer collaboration between SWISS and Lufthansa was further expanded with the start of the 2005/06 winter schedules on October 30. The partners have now harmonised their services between Switzerland and Germany: all SWISS and Lufthansa flights between the two countries are now flown as codeshare operations; and the timetables have been realigned to offer a total of 563 weekly services between Switzerland and Germany (241 more than in the 2005 summer schedules) spread conveniently throughout the day. Customers will enjoy more frequencies, more destinations and – through the coordinated schedules – better connections at the Zurich, Frankfurt and Munich hubs. The close collaboration will sustainably enhance SWISS's market position in Switzerland, in Europe and at hundreds of destinations worldwide.

With the start of the new winter schedules, the two partners' check-in desks and departure gates have all been brought under the single "roof" of the home carrier at the Zurich, Frankfurt and Munich hubs. This, too, offers several customer benefits. The shorter journeys involved allow quicker transfers and thus better connections; the use of shared check-in facilities makes the check-in process quicker and smoother for SWISS customers in Germany and Lufthansa customers in Switzerland (at Zurich, Geneva and Basel); and the partners' joint visual presence at the three hubs underscores SWISS's integration into the Lufthansa Group to the travelling public. Ground services and facilities will be similarly amalgamated at further airports in both countries by the start of the 2006 summer schedules.

This media release is also available on our www.swiss.com website under "About SWISS > Financial information".

SWISS Corporate Communications
P.O. Box, CH-4002 Basel
Phone: +41 (0)848 773 773
Fax: +41 (0)61 582 3554
E-mail: communications@swiss.com
Internet: www.swiss.com

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Consolidated income statement 1st – 3rd quarter, unaudited

in CHF million	1 st – 3 rd quarter 2005	1 st – 3 rd quarter 2004
Revenue from scheduled services	2 184	2 191
Revenue from cargo services	354	323
Revenue from charter services	78	76
Revenue from other operations	38	34
Total revenue	2 654	2 624
Gain on disposal of fixed and intangible assets	8	0
Other operating income	105	71
Total income from operating activities	2 767	2 695
Cost of materials	-814	-751
Cost of services	-879	-902
Personnel expenses	-535	-589
Depreciation and amortisation	-200	-222
Impairments	-45	0
Loss on disposal of fixed and intangible assets	-3	0
Other operating expenses	-267	-230
Profit from operating activities (EBIT) before restructuring costs	24	1
Restructuring costs	-10	0
Profit from operating activities (EBIT) after restructuring costs	14	1
Income from associates	1	1
Financial expenses	-103	-40
Financial income	8	22
Loss before tax (EBT)	-80	-16
Income taxes	-1	-1
Net loss for the period	-81	-17
Attributable to:		
Equity holders of the parent	-81	-17
Minority interests	0	0
in CHF		
Earnings per share (basic)	-1.53	-0.32
Earnings per share (fully diluted)	-1.53	-0.32

This quarterly 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 income statement 3rd quarter, unaudited

in CHF million	3 rd quarter 2005	3 rd quarter 2004
Revenue from scheduled services	794	751
Revenue from cargo services	126	106
Revenue from charter services	40	37
Revenue from other operations	16	12
Total revenue	976	906
Gain on disposal of fixed and intangible assets	2	0
Other operating income	20	21
Total income from operating activities	998	927
Cost of materials	-294	-255
Cost of services	-298	-296
Personnel expenses	-173	-191
Depreciation and amortisation	-67	-74
Impairments	-45	0
Other operating expenses	-88	-91
Profit from operating activities (EBIT) before restructuring costs	33	20
Restructuring costs	-4	0
Profit from operating activities (EBIT) after restructuring costs	29	20
Income from associates	0	0
Financial expenses	-23	-13
Financial income	2	9
Profit before tax (EBT)	8	16
Income taxes	0	0
Net profit for the period	8	16
Attributable to:		
Equity holders of the parent	8	16
Minority interests	0	0
 in CHF		
Earnings per share (basic)	0.15	0.30
Earnings per share (fully diluted)	0.15	0.29

This quarterly 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	September 30, 2005	December 31, 2004 ¹
Cash and cash equivalents	532	481
Fixed-term deposits (3-12 months)	1	4
Derivative assets	105	11
Trade receivables	315	233
Other receivables	29	21
Inventories	28	29
Prepaid expenses and accrued income	27	29
Current assets	1 037	808
Aircraft fleet	1 689	1 927
Property, plant and equipment	173	193
Intangible assets	14	18
Investments in associates	6	5
Loans and other investments	131	171
Deferred tax assets	1	1
Non-current assets	2 014	2 315
Total assets	3 051	3 123
Trade payables	222	245
Interest-bearing liabilities	149	244
Derivative liabilities	70	22
Other payables	60	33
Unearned transportation revenue	433	385
Accrued expenses and prepaid income	298	296
Current liabilities	1 232	1 225
Interest-bearing liabilities	782	831
Employee benefit obligations	12	11
Provisions	185	204
Deferred tax liabilities	0	0
Non-current liabilities	979	1 046
Total liabilities	2 211	2 271
Share capital	961	948
Treasury shares	0	0
Reserves	-124	-100
Minority interest	3	4
Total shareholders' equity	840	852
Total shareholders' equity and liabilities	3 051	3 123

¹ This quarterly 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 cash flow statement 1st – 3rd quarter, unaudited and condensed

in CHF million	1 st - 3 rd quarter 2005	1 st - 3 rd quarter 2004 ¹
Net loss for the period	-81	-17
Adjustments for income and expenses not involving the movement of funds	233	151
Changes in net working capital (other than cash and cash equivalents)	36	-25
Cash flow from operating activities	188	109
Cash flow from investing activities	91	-37
Cash flow from financing activities	-219	-227
Increase/(decrease) in cash and cash equivalents	60	-155
Effect of exchange-rate differences	-9	13
Cash and cash equivalents as of January 1	481	503
Cash and cash equivalents as of September 30	532	361

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.