Media release on
the 2004 annual results

March 11, 2005

SWISS improves EBIT by CHF 376 million

Swiss International Air Lines (Group) has reported a result from operating activities (EBIT) of minus CHF 122 million for 2004 on total income from operating activities of CHF 3 642 million. For the previous year SWISS recorded an EBIT before restructuring costs of minus CHF 498 million. The 2004 EBIT result includes impairments of CHF 174 million and non-recurring income of CHF 163 million. SWISS posted a consolidated net loss of CHF 140 million for the 2004 business year, which compares to a net loss of CHF 687 million (including restructuring costs) recorded for 2003.

Swiss International Air Lines (Group) generated total income from operating activities of CHF 3 642 million for 2004 (prior year: CHF 4 126 million). Earnings before interest and taxes (EBIT) for the year improved CHF 376 million to minus CHF 122 million (prior year: minus CHF 498 million before restructuring costs). The EBIT result was burdened by a CHF 174 million impairment for value adjustments to regional aircraft and buildings. However the EBIT result also includes non-recurring income amounting to CHF 163 million. This consists of a second-quarter CHF 68 million book gain deriving from the settlement of the legal dispute with HOLCO and a further CHF 95 million accrued in the fourth quarter, primarily from provision adjustments and from non-recurring income relating to the transfer of slots at London Heathrow Airport, for which British Airways made a part-payment in this period. The increase in fuel prices to record levels added approximately CHF 120 million of operating expenses in 2004.

Financial expenses for 2004 amounted to CHF 64 million (prior year: CHF 53 million). The increase is due largely to the higher expenditure on aircraft operated under finance leases following the replacement of the Boeing MD-11 by the Airbus A340. A foreign exchange impairment of CHF 23 million resulted from a cancelled aircraft order. The CHF 70 million in financial income derives mainly from non-cash foreign-currency gains on liabilities, and reflects the positive net impact of the weaker US dollar. The consolidated net result for the year amounted to a loss of CHF 140 million – a CHF 547 million improvement on the prior-year loss of CHF 687 million.

For the fourth quarter of 2004 Swiss International Air Lines (Group) reported an EBIT of minus CHF 123 million (prior-year period: minus CHF 90 million). The results for the two periods are not comparable, since they include different non-recurring items. However, on an adjusted basis the group improved its EBIT result by nearly CHF 50 million.

“While our quarterly operating results exceeded their prior-year equivalents in every period in 2004, our overall net result for the year is not satisfactory,” said Christoph Franz, President &

Chief Executive Officer of SWISS. “Our company did make impressive progress and improved its result by approximately ten percent of annual turnover, and this confirms to us that the path we have taken is a promising one, but the actions we announced in January are indispensable if we are to become and remain a sustainably competitive company”, he continued.

A positive cash flow from operating activities of CHF 189 million

Cash flow from operating activities: The negative cash flow of minus CHF 340 million in 2003 was turned into a positive CHF 189 million in 2004, an improvement of CHF 529 million. This was achieved primarily through substantial progress on both the cost and the revenue fronts. Active cash management also played a major role in stemming the drain on liquid funds.

Cash flow from investing activities amounted to CHF 5 million (prior year: CHF 45 million). This included a cash outflow of CHF 88 million on interior components, spare parts and consumable materials for the aircraft fleet. A total cash inflow of CHF 90 million was generated by the transfer of slots at London Heathrow Airport, a reduction in cash deposits connected to the return of aircraft and the sale of aircraft. Various other investments and divestitures resulted in a net cash inflow of a further CHF 3 million.

Cash flow from financing activities totalled minus CHF 211 million (prior year: minus CHF 326 million). A total of CHF 151 million of cash and cash equivalents was used for amortisations on aircraft finance lease liabilities, while CHF 128 million was spent on debt repayments. A further cash outflow of CHF 56 million was incurred through ordinary interest payments on finance lease liabilities, while CHF 2 million was spent on dividends to minorities. These amounts were partially offset by cash inflows totalling CHF 126 million. SWISS made full use of a CHF 50 million credit facility provided by Barclays Bank on March 16, 2004. Following a partial repayment in the fourth quarter, CHF 43 million of this amount remained in cash and cash equivalents at year-end. In the fourth quarter SWISS took out a loan of CHF 15 million from Unique (Flughafen Zürich AG) and drew CHF 61 million from the CHF 325 million credit facility closed with an international banking syndicate in October 2004.

Cash and cash equivalents totalled CHF 481 million at December 31, 2004, while a further CHF 4 million was held in fixed-term deposits. Cash and cash equivalents had stood at CHF 361 million (plus CHF 5 million in fixed-term deposits) at the end of the third quarter 2004, and at CHF 503 million at the end of 2003.

SWISS had additional liquidity of CHF 89 million available within its credit facilities at December 31, 2004. This amount varies depending, among other things, on the exchange rates of the US dollar and the Euro against the Swiss franc.

In order to reduce its exposure to foreign exchange, interest rate and oil price fluctuation risks SWISS makes use of hedging instruments, which are common practice in the airline industry. In view of its liquidity situation, however, SWISS refrained from hedging its fuel needs for large parts of 2004. The record high prices of jet fuel created a generally extremely difficult market environment in the course of the year.

Having closed its secured credit facility in the fourth quarter of 2004 and seen fuel prices fall somewhat from their record high levels, SWISS’s in-house risk management specialists began to build up new hedge positions to protect the company from price fluctuations, especially in the critical winter months. By December 31, 2004, the company had hedged approximately 27% of its fuel needs for the following 12 months.

Equity ratio slightly improved and net debt reduced

Group shareholders' equity totalled CHF 848 million at December 31, 2004 (prior year: CHF 1 022 million). However the balance sheet contraction and the resizing of the company improved overall balance sheet ratios. The equity ratio rose to 27.2%, a slight 0.8-percentage-point improvement on the end of 2003. The net financial debt position improved substantially from CHF 703 million to CHF 594 million. This reduction was achieved despite the company's investment in two new Airbus A340 aircraft.

On August 31, 2004 a group of 29 shareholders accounting for 86.1% of SWISS's total share capital agreed to extend the lock-up agreement for the shareholdings to which they subscribed under the capital increase effected upon the company's foundation to August 31, 2005.

Yields under pressure, RASK shows positive trends

Despite the economic recovery in Europe, yields (revenue per passenger kilometre) remain under pressure throughout the European air transport sector. The market is still subject to persistent overcapacity and continuing fare erosion. The growing number of low-cost carriers on the market has intensified competition. Low-cost carriers have established themselves in Switzerland, too: their market share at Zurich Airport has increased from 4% of total passengers in 2002 to 14% in 2004.

SWISS did, however, see a positive development in its revenue per available seat-kilometre or RASK. Calculated from the seat load factor and yields, the 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 half of 2004 was an improvement of 3.6% on the same period a year ago. The second half of the year produced an even higher 3.9% increase, resulting in a 3.8% year-on-year improvement for 2004 as a whole. The RASK result includes the fuel surcharges which SWISS has been levying on its tickets since May 2004. In line with the industry SWISS introduced its surcharges gradually in the course of the year, in response to the steep rise in jet fuel prices.

The positive RASK trend is attributable to various actions taken to raise revenue levels. These include the modifications already made to the route network. Additional revenue potential was also tapped by adopting a more sophisticated pricing and revenue management model.

An improved cost structure

SWISS substantially reduced its costs in the course of 2004 in its efforts to establish a more competitive cost base in international terms. The first positive effects of the company's restructuring activities were seen in its results for the 2003 business year; but the full impact of these measures was only to be felt in 2004.

Unit costs or costs per available seat-kilometre (CASK) for the first half of 2004 were 2.2% lower than for the prior-year period. CASK for the second six months of 2004 was 2.7% higher than for the same period in 2003. This was, however, due to the higher price of jet fuel: excluding fuel costs, CASK for the second half-year was 3.2% below its prior-year equivalent.

While the major cost reduction measures have already produced significant improvements, CASK must be further reduced, especially in view of the ongoing fare erosion, which is likely to continue in 2005.

Cost of materials, which includes the costs of the maintenance of the aircraft fleet and the cost of jet fuel and inflight catering, amounted to CHF 1 020 million for 2004 (prior year: CHF 1 262 million). The increase in fuel prices to record levels added approximately CHF 120 million to this item, neutralising part of the gains made through restructuring activities: while some of its cost savings were due to the reduction in business volumes, SWISS also substantially lowered its unit costs. Through efficiency enhancements the company tangibly reduced its aircraft maintenance costs. Further cost economies were realised with the replacement of the Boeing MD-11 by the Airbus A340, with its lower maintenance needs. On the inflight services front, SWISS embarked on a new form of collaboration with its suppliers which, with the introduction of the new European inflight service concept, permitted sizeable savings to be made.

Cost of services for 2004 amounted to CHF 1 170 million (prior year: CHF 1 401 million). The various items that make up this cost position showed differing trends. The decline in handling and landing fees was due to the reduction in passenger numbers. This reduction in volumes also affected distribution costs, which were further diminished by the abolition of commission payments (which was effected in some markets outside Switzerland in the course of 2004) and the increased use of online booking facilities. SWISS also abolished its previous commission payments to travel agencies in Switzerland when it introduced its new distribution model on January 1, 2005: the travel agencies now debit the customer directly for the services they provide. In adopting the new arrangement, SWISS is following a global trend in the air transport sector. Air traffic control costs declined as a result of the substantially fewer flights performed in 2004. Passenger taxes for charter operations declined in line with the smaller number of charter flights operated.

Personnel expenses totalled CHF 774 million in 2004 (prior year: CHF 958 million). Personnel numbers had declined to 6 625 full-time equivalents by December 31, 2004 – 339 positions fewer than at the end of September and 1 447 positions (or 17.9%) fewer than at the end of 2003. The average number of employees (in full-time equivalents) in 2004 showed an even bigger year-on-year decline: with a large number of the positions eliminated in 2003 only disappearing in the fourth quarter with the expiry of the corresponding notice periods, the average number of employees in 2003 was substantially higher than in 2004. Personnel expenses saw a 19.2% year-on-year decline. Further efficiency enhancements are still required, however. The 6 625 full-time positions were occupied by 7 909 employees around the world.

Impairments totalling CHF 174 million were effected in the 2004 financial statements for value adjustments to regional aircraft and buildings.

The CHF 6 million *loss on the disposal of fixed and intangible assets* (prior year: CHF 13 million) relates to book losses on the sales of three Saab 2000 aircraft.

Increased load factors

SWISS transported approximately 9.2 million passengers in 2004. A total of 143 650 flights were performed, with an average load factor of 74.9% – a 2.5-percentage-point improvement on the previous year. SWISS increased its seat load factor (SLF) on European routes to 60.8%, a rise of 1.2 percentage points. Seat load factor for intercontinental services registered a substantial 3.3-percentage-point improvement to 81.3%.

While SWISS's long-haul business showed very positive trends, load factors remain unsatisfactory for the European network. The pressure exerted by the vast capacities brought to market at low prices by the low-cost carriers is also having its impact on load factor levels, especially in the main European markets.

Fourth-quarter load factor stood at 74.3%, a slight 0.7-percentage-point decline on the prior-year period. Seat load factor for Europe amounted to 56.8%, 4.9 percentage points down on the last quarter of 2003. Fourth-quarter load factor on intercontinental services rose 2.0 percentage points to 82.4%.

SWISS's cargo business continued to show positive developments. Swiss WorldCargo transported 208 165 tonnes of cargo in 2004, generating a total traffic volume of approximately 1.14 billion cargo tonne-kilometres. Intercontinental cargo load factor (by volume) amounted to 86.3%, an improvement of 1.9 percentage points on its prior-year equivalent. SWISS's cargo business makes vital contributions to the Group's overall results, and offers strong prospects for sustained future growth. Swiss WorldCargo introduced a new airfreight services between Karachi, Istanbul and Zurich at the end of October 2004 in cooperation with MNG Airlines. Riyadh was added in January 2005. The Airbus A300 dedicated freighter used on the routes is operated by MNG Airlines.

Further improvements and efficiency gains essential

SWISS presented a package of measures in mid-January 2005 which are designed to lay the foundation required to place the company on a sustainably competitive footing.

"The overcapacity worldwide and in Europe in particular, intensifying competition – especially from the low-cost carriers – and the associated fare erosion, but also the continuing high price of jet fuel are market challenges to which SWISS is actively rising," said Christoph Franz. "Only by further raising our efficiency and by adopting cost-covering production structures for our Basel and Geneva operations can we make ourselves sustainably competitive and thereby gain the business scope we need for further investments and future growth. And that's the path we intend to clearly and consistently take."

SWISS aims to focus even more intensely on profitable markets, and to take further action to raise its productivity and create competitive business structures. It further intends to make full use of its attractive Zurich hub to strengthen its position in the Swiss home market. The present range of services to and from Zurich will be retained, and should be further expanded through codeshare operations. Greater use of larger-capacity aircraft on Zurich-based services should support this endeavour. This not only increases customers' benefits; the lower resulting costs per available seat also provide SWISS with greater scope to compete with the low-cost carriers. SWISS also aims to better exploit existing revenue potential.

Services in Geneva and Basel will be transformed into cost-covering production systems. Services which SWISS does not operate itself under the new approach will be transferred to partner airlines wherever possible, to ensure that customers continue to enjoy attractive flight schedules.

A partnership agreement has already been concluded with Air France for the Geneva-Paris route. By May 1 at the latest, the agreement will see the ten daily flights operated by Air France published as codeshare services, while SWISS ceases its own operations on the route. The new arrangement will give SWISS customers a choice of ten frequencies a day between the two cities instead of the present six.

The network modifications planned will lead to the reduction of the aircraft fleet by at least 13 regional aircraft. Which aircraft types will be affected is currently the subject of ongoing negotiations with candidate partner airlines and potential purchasers of the aircraft concerned.

Further cost economies are expected to be achieved through the current negotiations on the company's collective labour agreements. All SWISS employees – cockpit, cabin, ground staff and management personnel – should be more productively deployed. In addition to increases in efficiency and productivity, salary structures should also be aligned more closely to the competitive environment.

Substantial cost reductions should also be achieved through further contractual negotiations with all the company's suppliers. The costs of the external maintenance of the medium-haul and long-haul fleets, which are still far too high, are a cause of particular concern. Despite efforts that have now been continuing for some 18 months, the cost reductions sought in this area have still not been achieved. Swiss International Air Lines Ltd. and SR Technics Switzerland have referred their dispute over the interpretation of the full support contract concerned to a court of arbitration, which will act in accordance with International Chamber of Commerce (ICC) arbitration rules. The partners' bilateral discussions are continuing parallel to these endeavours.

The outsourcing of IT operations to Swisscom IT Services which was due to be formally effected on March 1, 2005 is well under way. The new arrangement enables SWISS to focus even more closely on its core business. It will also lower the company's IT infrastructure costs, place formerly fixed costs on a variable footing and smooth out former investment peaks.

SWISS further announced a reorganisation of its call centres for the Swiss market in mid-February. The new arrangement entails closer collaboration with Mindpearl, the company's fully-owned subsidiary which specialises in telephone sales. As a result, three of the four SWISS call centres in Switzerland will cease operations. The SWISS call centre in Basel will be expanded by at least ten positions. Customers will continue to receive the usual high-quality service. Mindpearl already successfully provides telephone call centre services for almost all SWISS markets around the world.

The present surplus of personnel in some parts of the company, the planned downsizing of the aircraft fleet, the endeavours to increase productivity companywide and further actions planned will lead to the elimination of 800 to 1 000 positions from the SWISS workforce. Partnerly solutions will be sought together with the company's unions for the personnel affected. The reductions will be effected over an extended period, but will be completed by mid-2006. Around one-third of the reductions are expected to be achieved through natural employee turnover.

All in all, SWISS is seeking to lower its net annual costs by approximately CHF 300 million. This recurring improvement should be achieved in full from 2007 onwards. Present indications suggest that, if the actions resolved are not swiftly implemented, SWISS would be unable to post a positive operating result for 2005.

This media release, a financial presentation and the letter to shareholders are all available on our www.swiss.com website under "About SWISS > Investor Relations".

The media conference on the annual results starts at 10.00h. We will comment on this media release once the conference is over.

It is possible to listen to the Annual Results Press Conference LIVE by telephone in English or German: Tel. No. +41 (0) 848 10 11 12 (CHF 0,08 per minute for calls within Switzerland, international rates from abroad).

Journalists and business analysts who do not attend the press conference in Basel can take part in a brief telephone conference with CEO Christoph Franz and Managing Director Finance Ulrik Svensson. The telephone conference begins at 15.00. Tel. No. +41 1 419 90 21 (normal taxes for calls within Switzerland, international rates from abroad).

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

Swiss International Air Lines (Group), Basel
Consolidated income statement

in CHF million	1st - 4th quarter 2004	1st - 4th quarter 2003
Revenue from scheduled services	2 936	3 326
Revenue from cargo services	442	498
Revenue from charter services	95	133
Revenue from other operations	46	50
Total revenue	**3 519**	**4 007**
Gain on disposal of fixed and intangible assets	1	3
Other operating income	122	116
Total income from operating activities	**3 642**	**4 126**
Cost of materials	-1 020	-1 262
Cost of services	-1 170	-1 401
Personnel expenses	-774	-958
Depreciation and amortisation	-310	-251
Impairments	-174	-104
Loss on disposal of fixed and intangible assets	-6	-13
Other operating expenses	-310	-635
Loss from operating activities (EBIT) before restructuring costs	**-122**	**-498**
Restructuring costs	0	-205
Loss from operating activities (EBIT) after restructuring costs	**-122**	**-703**
Income from associates	0	1
Financial expenses	-64	-53
Impairment due to currency exchange losses on prepayments made for cancelled aircraft orders	-23	0
Financial income	70	72
Loss before tax (EBT)	**-139**	**-683**
Income taxes	-1	-3
Loss after tax	**-140**	**-686**
Minority interest	0	-1
Net loss for the year	**-140**	**-687**
in CHF		
Earnings per share (basic)	-2.66	-13.06
Earnings per share (fully diluted)	-2.66	-13.06

Both income and expense positions for 2004 are only comparable with their prior-year equivalents to a limited degree. SWISS commenced its corporate restructuring in the second half of 2003. This resulted in a resized route network and substantial cost reductions in both flight operations and administrative functions.

Provisions of CHF 68 million no longer required following the settlement of the legal dispute with HOLCO were released in the second quarter of 2004 and recognised in the income statement, where they resulted in a corresponding reduction in “Other operating expenses”.

Swiss International Air Lines (Group), Basel

Consolidated income statement 4th quarter, unaudited

in CHF million	4th quarter 2004	4th quarter 2003
Revenue from scheduled services	745	755
Revenue from cargo services	119	118
Revenue from charter services	19	25
Revenue from other operations	12	11
Total revenue	**895**	**909**
Gain on disposal of fixed and intangible assets	1	3
Other operating income	51	40
Total income from operating activities	**947**	**952**
Cost of materials	-269	-268
Cost of services	-268	-277
Personnel expenses	-185	-167
Depreciation and amortisation	-88	-71
Impairments	-174	-104
Loss on disposal of fixed and intangible assets	-6	-1
Other operating expenses	-80	-154
Loss from operating activities (EBIT) before restructuring costs	**-123**	**-90**
Restructuring costs	0	0
Loss from operating activities (EBIT) after restructuring costs	**-123**	**-90**
Income from associates	-1	0
Financial expenses	-24	-17
Impairment due to currency exchange losses on prepayments made for cancelled aircraft orders	-23	0
Financial income	48	29
Loss before tax (EBT)	**-123**	**-78**
Income taxes	0	0
Loss after tax	**-123**	**-78**
Minority interest	0	0
Net loss for the period	**-123**	**-78**
in CHF		
Earnings per share (basic)	-2.34	-1.47
Earnings per share (fully diluted)	-2.34	-1.47

Both income and expense positions for the fourth quarter of 2004 are only comparable with their prior-year equivalents to a limited degree. SWISS commenced its corporate restructuring in the second half of 2003. This resulted in a resized route network and substantial cost reductions in both flight operations and administrative functions.

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

in CHF million	December 31, 2004	December 31, 2003
Cash and cash equivalents	481	503
Fixed-term deposits (3-12 months)	4	0
Derivative assets	11	52
Trade receivables	233	362
Other receivables	21	163
Inventories	29	33
Prepaid expenses and accrued income	29	34
Current assets	**808**	**1 147**
Aircraft fleet	1 927	2 247
Property, plant and equipment	193	246
Intangible assets	18	19
Investments in associates	5	6
Loans and other investments	171	208
Deferred tax assets	1	1
Non-current assets	**2 315**	**2 727**
Total assets	**3 123**	**3 874**
Trade payables	245	277
Interest-bearing liabilities	244	286
Derivative liabilities	22	20
Other payables	33	54
Unearned transportation revenue	385	519
Accrued expenses and prepaid income	296	345
Current liabilities	**1 225**	**1 501**
Interest-bearing liabilities	831	920
Employee benefit obligations	11	19
Provisions	204	406
Deferred tax liabilities	0	0
Non-current liabilities	**1 046**	**1 345**
Total liabilities	**2 271**	**2 846**
Minority interest	**4**	**6**
Share capital	948	1 685
Treasury shares	0	0
Reserves	-100	-663
Total shareholders' equity	**848**	**1 022**
Total shareholders' equity and liabilities	**3 123**	**3 874**

Swiss International Air Lines (Group), Basel
Consolidated cash flow statement

in CHF million	1st - 4th Quarter 2004	1st - 4th Quarter 2003
Net loss for the year	**-140**	**-687**
Depreciation and amortisation	310	251
Impairments	174	104
Net foreign exchange result	-61	-54
Impairment due to currency exchange losses on prepayments made for cancelled aircraft orders	23	0
Net loss on disposal of fixed and intangible assets	5	10
Share of (profit)/loss of associates	0	-1
Net gain from transfer of airport slots	-29	0
Net creation/(release) of provisions	-12	343
Recognition on income statement of unearned transportation revenue	-181	-106
Interest expenses	55	49
Interest income	-9	-18
Income taxes	1	3
Minority interest	0	1
Decrease in trade and other receivables	278	180
Decrease in inventories	4	7
Decrease in prepaid expenses and accrued income	5	18
Decrease in trade and other payables	-50	-185
Increase/(decrease) in accrued expenses and prepaid income	-2	30
Decrease in employee benefit obligations	-8	-23
Decrease in provisions	-173	-259
Income tax paid	-1	-3
Cash flow from operating activities	**189**	**-340**
Acquisitions of aircraft	-88	-173
Disposals of aircraft and sale-and-leaseback transactions	26	141
Acquisitions of property, plant and equipment	-3	-61
Disposals of property, plant and equipment	5	1
Acquisitions of intangible assets	-4	-11
Acquisitions of subsidiaries and minoritites, net of cash acquired	0	-1
Acquisitions of other financial assets (including associates)	-4	0
Disposals of other financial assets	35	128
Transfer of airport slots	29	0
Interest received	9	18
Dividends received	0	3
Cash flow from investing activities	**5**	**45**
Interest paid	-56	-58
Increase in financial liabilities	126	24
Decrease in financial liabilities	-128	-252
Payment of finance lease liabilities	-151	-40
Dividends paid to minorities	-2	0
Cash flow from financing activities	**-211**	**-326**
Decrease in cash and cash equivalents	-17	-621
Effect of exchange rate differences	-5	-4
Cash and cash equivalents as of January 1	503	1 128
Cash and cash equivalents as of December 31	481	503

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.