



SWISS limits first-quarter losses to CHF 200 million

SWISS generated revenues of CHF 1,044 million during the first three months of the 2003 financial year and has reported losses of CHF 200 million for the period under review. The results reflect the extremely difficult economic environment currently affecting all airlines, a situation which has been exacerbated by the war in Iraq and the SARS virus. The cost-cutting measures that have already been implemented are now beginning to take effect. Liquidity stood at CHF 913 million at the end of March.

Revenues from scheduled flights total CHF 880 million. 2.7 million passengers travelled on our scheduled flights during the first quarter, and the seat load factor was 67.9%. The gross average yield per revenue seat-kilometre remained under pressure at 14.0 Swiss cents. As in recent months, the reasons for this trend are to be found in the very difficult operating climate impacting on the entire air travel industry, which is negatively affected by low demand, substantial over-capacity and fierce pricing competition amongst national airlines. The industry faces a further challenge from the growing number of low-cost carriers. The cargo business reported sales of CHF 130 million, a satisfactory result roughly on a par with the results achieved in recent quarters. Year-on-year, the charter business performed slightly better, generating sales of CHF 22 million. Further earnings of CHF 12 million also accrued from e.g. aircraft maintenance work carried out for other airlines.

Total turnover in the first quarter amounted to CHF 1,044 million. Additional operating revenues amounting to CHF 22 million were collected from leasing operations concerning aircraft, flight simulators and office space, and from commissions on ticket sales for other airlines.

Cost-cutting remains a top priority

The cost of materials, which includes, in particular, the cost of in-flight catering, aircraft maintenance and fuel purchases, amounted to CHF 348 million in the period under review. Aviation fuel prices peaked in March in the run-up to the war in Iraq. However, the greater part of the increase in this cost item was mitigated by hedging transactions. At CHF 415 million, the cost of services was the biggest cost item: it includes expenditure for ground services, landing and fly-over fees and sales commissions. Personnel expenses amounted to CHF 270 million, whilst depreciation totalled CHF 58 million. The CHF 174 million in other operating expenditure includes administration, advertising, IT and insurance costs.

The cost-cutting measures announced as part of the “Target Turnaround” project were implemented during the first quarter of 2003, and have so far reduced costs by CHF 50 million. Substantial savings have been achieved in personnel and IT expenditure, advertising and catering. The cost-cutting programme is expected to go on reducing expenditure throughout the year, especially from the third quarter onwards. The aim of the “Target Turnaround” project is to trim annual costs by a total of CHF 600 million. In view of the current situation affecting the air travel industry, further drastic cost-cutting measures will have to be implemented.

Ensuring a competitive cost basis is a top priority for SWISS, and will remain of paramount importance in view of aggressive pricing competition in the air travel industry.

First-quarter loss of CHF 200 million

After the first three months of the current financial year, results from operating activities showed a loss of CHF 199 million. The financial results were balanced: financial expenses of CHF 12 million were offset by financial income of an equivalent amount (deriving from interest payments on cash and cash equivalents, and foreign exchange earnings). Taxes – owed because of profitable subsidiaries – amounted to CHF 1 million. First-quarter losses therefore total CHF 200 million.

The first-quarter result has been negatively burdened by the continuing slump in the global economy, high levels of uncertainty prior to the Iraq conflict and reduced travel during the war. Our calculations indicate that the Iraq war has wiped around CHF 70 million off SWISS's first-quarter results.

Outflow of CHF 343 million in the first quarter influenced by seasonal factors – but liquidity remains intact

The consolidated balance sheet as at the end of March showed cash and cash equivalents of CHF 913 million. Whilst this value is CHF 343 million below the year-end figure and substantially in excess of the loss incurred during the period under review, it can be ascribed to various seasonal factors. Accounts payable were reduced by CHF 84 million, for example, whilst accounts receivable rose by CHF 37 million. Further downpayments were also made on aircraft orders, and will not be refinanced until some later point. Advanced bookings also had a significant impact: in March in particular, there were fewer advance bookings because of the war in Iraq, and this had a corresponding negative effect on first-quarter revenues.

Given the seasonality of our business and the measures we have already implemented to reduce our net working capital, the “cash-burn rate” is expected to fall over the next few months.

Equity of CHF 1,494 million

The value of the aircraft fleet remained virtually constant at CHF 2,067 million compared to the year-end figure. Fleet depreciation almost equalled investment in aircraft modifications and further downpayments on aircraft orders. Property, plant and equipment (CHF 284 million) was CHF 18 million up on the value at the beginning of the year; this increase is essentially due to the completion of the offices in Basel. Fixed assets accounted for 58.8% of total assets at the end of March.

Shareholders' equity stands at CHF 1,494 million following the loss sustained in the first three months, giving an equity ratio of 33.8%. The cut in capital announced at the General Assembly, which was effected by reducing the nominal value of each share from CHF 50 to CHF 32, went ahead on 9 May 2003. This will reduce share capital by a total of CHF 946 million; the amount of losses brought forward will also be reduced by the same amount. The total amount of equity is not affected.

Head count

The number of full-time posts at SWISS, including its subsidiaries, totalled 10,521 on 31 March, i.e. 85 posts fewer than the 10,606 at the end of 2002. Natural fluctuation and redundancies have reduced this total by a further 680 jobs since early April, so that the total head count will continue to fall over the year as announced.

Consolidated income statement

IFRS, unaudited	Jan – March		Jan – March 2002	
	2003	%	(CHF million)	%
	(CHF million)			
Revenue from scheduled services	880	84.3	448	91.6
Revenue from cargo services	130	12.5	11	2.2
Revenue from charter flights	22	2.1	21	4.3
Revenue from other operations	12	1.1	9	1.8
Total revenue	1 044	100.0	489	100.0
Other operating income	22		28	
Cost of materials	- 348		- 118	
Cost of services	- 415		- 242	
Personnel expenses	- 270		- 108	
Depreciation and amortisation	- 58		- 30	
Other operating expenses	- 174		- 205	
Total operating expenses	- 1 265		- 703	
Loss from operating activities	- 199		- 186	
Financial result	0		- 13	
Taxes	- 1		0	
Minority interests	0		0	
Consolidated loss	- 200		- 199	

Note: The financial statements for the 1st Quarter 2002 have been prepared in line with the International Financial Reporting Standards (IFRS) and have been adjusted vis-à-vis the results for the first quarter 2002 as published on 7 May 2002, which were prepared in line with Swiss GAAP FER and showed a loss of CHF 190 million. Accounting for the rest of 2002 was then conducted in line with IFRS and does not, therefore, require any adjustment.

Comparison with previous year: The figures from the previous year are only comparable to a limited degree as SWISS did not commence its intercontinental flights until the 2nd quarter of 2002. The Airbus A320 fleet acquired in the first quarter of 2002 to expand our European operations was leased on a wet lease basis (i.e. including crew members) from Swissair.

Earnings per share

IFRS, unaudited	Jan – March	Jan – March 2002
	2003	(CHF)
	(CHF)	
Consolidated earnings per share	- 3.81	- 4.08

Consolidated balance sheet

Assets IFRS, unaudited	31.03.2003 (CHF million)		31.12.2002 (CHF million)	
		%		%
Current assets				
Cash and cash equivalents	835		1 128	
Fixed-term deposits (3-12 months)	10		60	
Fixed-interest securities	68		68	
Receivables	720		683	
Other current assets	191		166	
Total current assets	1 824	41.2	2 105	45.1
Fixed assets				
Aircraft fleet	2 067		2 066	
Property, plant and equipment	284		266	
Other fixed assets	247		231	
Total fixed assets	2 598	58.8	2 563	54.9
Total Assets	4 422	100.0	4 668	100.0

Liabilities IFRS, unaudited	31.03.2003 (CHF million)		31.12.2002 (CHF million)	
		%		%
Liabilities				
Trade payables	417		501	
Current financial liabilities	224		163	
Unearned transportation revenue	506		450	
Other current liabilities	547		535	
Total current liabilities	1 694		1 649	
Long-term financial liabilities	835		939	
Other long-term liabilities	392		364	
Total long-term liabilities	1 227		1 303	
Total liabilities	2 921	66.1	2 952	63.2
Minority interests	7	0.1	7	0.2
Shareholders' equity				
Share capital	2 627		2 627	
Capital reserves	338		338	
Carried forward	- 1 471		- 1 256	
Total shareholders' equity	1 494	33.8	1 709	36.6

Total liabilities	4 422 100.0	4 668 100.0
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Head count

IFRS, unaudited	31.03.2003	31.12.2002
Number of full-time posts	10 521	10 606

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