Press Release 19 August 2003

SWISS reports first-half loss of CHF 333 million

Swiss International Air Lines generated total income from operating activities of CHF 2 098 million in the first six months of 2003 and reports a net loss of CHF 333 million for the period. The CHF 133 million net loss posted for the second quarter of the year was an improvement on the CHF 200 million net loss sustained in the first three months. The better performance helped produce a first-half result which was also an improvement on the CHF 447 million net loss sustained for the first six months of 2002.

The cost economies already initiated – some of them as early as winter 2002/03 – are now beginning to bite. The liquidity of the SWISS Group (including three-to-twelve-month fixed-term deposits) stood at CHF 811 million at the end of June 2003 (compared to CHF 913 million at the end of March).

SWISS carried 5.5 million passengers on its scheduled air services in the first half of 2003, generating operating revenue of CHF 1 715 million. The seat load factor amounted to 68.7%, and the gross yield per revenue seat-kilometre totalled CHF 0.14. Pressure on yields thus remained strong throughout the period. The reasons for the tough business climate which continued to be experienced in the first six months can be found partly in the highly cyclical nature of the air transport industry, which is currently suffering from sizeable overcapacities, and partly in the shock impact on demand of exogenous factors, primarily the SARS outbreak and the hostilities in Iraq. SWISS has also had to contend with increasing pricing pressure from the no-frills carriers.

The company's cargo business produced encouraging first-half operating revenue of CHF 260 million, a result which was largely in line with previous quarters' performance. The CHF 57 million in revenue from charter operations was 13.6% down on the same period last year, a decline largely attributable to the reduction in capacity following fleet downsizing activities. A further CHF 22 million in revenue was generated from other operations, including aircraft maintenance performed on other airlines' behalf.

SWISS generated total income from operating activities of CHF 2 098 million in the first half of 2003. The result includes other operating income of CHF 44 million earned through the leasing-out of aircraft, flight simulators and office facilities and through commissions on ticket sales for other airlines.

The airline market: current health and trends

IATA, the International Air Transport Association, was still reporting dramatically low traffic volumes for its member airlines as recently as its June monthly report. After May traffic had been 21% below its prior-year level (and as much as 55% below on Far East routes), a modest recovery was seen in June, though results for the month were still a tangible 11.8% down overall and 35.8% down for the Far East on their 2002 equivalents. SWISS's results should also be viewed and assessed against this overall industry background. And, in an extremely turbulent second three months, the airline did post a significantly-improved quarterly result.

In its own latest report, which was published at the end of July, the Association of European Airlines (AEA) even speaks of the first signs of a slow recovery. Total traffic volume in the European airlines' prime markets (within Europe, across the North Atlantic and to and from the Far East) was 1.7% higher for the last week of July than for the same period last year, a result which appears to confirm the trend reversal seen over the past few weeks. The growth was strongest over the North Atlantic at 6.7% – partly, of course, because these routes had suffered the greatest declines in 2002. Traffic in Europe rose by 2.0%. And the markets seem to be recovering in the Far East, too, where volumes are now approaching their prior-year levels. The severity of the decline in the Far East, which hit SWISS hard, is illustrated by the fact that, despite a continuous recovery over the past eleven weeks, market volumes are still some 6.6% below their 2002 equivalents.

A CHF 333 million first-half loss

SWISS's earnings from operating activities show a loss of CHF 346 million for the first six months of the year. With financial expenses of CHF 25 million and financial income of CHF 40 million (the latter deriving from currency-exchange gains and interest on liquid funds), the financial result contributed a profit of CHF 15 million to this first-half performance. Income taxes – paid on profits achieved by subsidiary companies – amounted to CHF 2 million. As a result, the first six months of 2003 produced a net loss for the period of CHF 333 million.

The exceptional costs which are being incurred as a result of the restructuring activities currently under way are not included in the present half-yearly results. These non-recurring costs have been budgeted at around CHF 200 million. This amount includes the leaving settlements associated with the out-of-court agreement recently concluded with a section of the pilot corps, the costs arising from "Sozialplan" severance benefits packages and early retirements, and the additional costs incurred through the early withdrawal of equipment from the aircraft fleet. These provisions will be shown at the end of the second half of 2003, when they will be included in the consolidated financial statements for the year as a whole.

SWISS's first-quarter results were adversely affected by the lingering global economic recession, the sizeable uncertainties in the period leading up to the hostilities in Iraq and the lower travel volumes during the conflict itself. Revenues in the second quarter were severely depressed by the outbreak of SARS, and are substantially below budgeted projections.

Net cash outflow of CHF 445 million; liquidity still intact

The consolidated balance sheet shows cash and cash equivalents, short-term fixed-term deposits and marketable securities amounting to CHF 811 million at the end of June, CHF 445 million less than these positions had totalled at the end of 2002 and CHF 102 million below their aggregate total at the end of March 2003. These figures clearly show that the cash drain slowed down in the second three months of the year. The trend can be partly attributed to seasonal business fluctuations and to steps taken to reduce non-cash net working capital; but the actions implemented under the Target Turnaround cost reduction programme launched last November are also now being fully felt, and made a particularly strong contribution to the sizeable savings effected in areas such as IT, sales and marketing and commissions paid.

Shareholders' equity of CHF 1 360 million

The value of the aircraft fleet on June 30, 2003 amounted to CHF 2 050 million, a CHF 16 million decline on its equivalent at the end of 2002. That the capitalised value of the aircraft fleet fell despite the arrival of the first Airbus A340 is due primarily to the fact that the reduction in the number of Embraer aircraft ordered resulted in the partial repayment of a prepayment already made (and capitalised) for the aircraft concerned.

The value of the property, plant and equipment position amounted to CHF 302 million, CHF 36 million more than at the beginning of the year. The increase can be largely ascribed to the completion of the Basel head-office extension and to the capitalisation of properties in Zurich and IT facilities. Non-current assets accounted for 60.0% of the company's total assets at the end of June 2003.

Shareholders' equity stood at CHF 1 360 million after incorporation of the loss sustained in the first-half period, giving a balance sheet equity ratio of 31.0%. The capital reduction by reducing the share's nominal value from CHF 50 to CHF 32 which was approved by the 2003 Ordinary General Meeting was effected on May 9, lowering share capital by a total of CHF 946 million. The share premium position was also reduced by CHF 338 million, and the loss carried forward was reduced by the same overall amount.

Restructuring and cost reduction programmes showing first success

The first half of 2003 was dominated by the downsizing and restructuring programmes initiated in view of a further weakening of the economy, the Iraq crisis, the outbreak of SARS and general fundamental shifts and trends in the airline market.

The company launched its first cost reduction programme – Target Turnaround – back in November 2002, resolving at the same time to reduce the size of its aircraft fleet. With economic conditions continuing to deteriorate and tension growing in and around Iraq, the Board of Directors approved a further restructuring programme at the end of February 2003 which resulted in the withdrawal of services or reductions in frequencies on routes to and from Zurich, Basel, Geneva, Lugano and Bern. The aircraft fleet was further downsized with the withdrawal of 17 regional aircraft, two Boeing MD-83s and one Airbus A320. These actions also entailed the elimination of some 700 jobs, and were to be implemented with the start of the 2003 summer schedules on March 30.

March 20 brought the first attacks on Iraq, and with them the entry into operation of the SWISS Task Force Iraq. The task force followed developments daily; but no changes had to be effected to schedules to and from the Gulf at any time during the hostilities. A higher security fee was temporarily levied, however, in view of the increased security precautions.

The outbreak of the SARS illness and the war in the Middle East had a clear and direct impact on the global demand for air transport services. As a result, SWISS effected a temporary reduction in its capacity from April to May. These actions affected both its European and its long-haul network.

On June 24, SWISS announced a repositioning of its entire organisation. Radical steps are required if the company is to achieve the further cost reductions needed to effect the turnaround desired. The Board of Directors thus resolved to withdraw 34 more aircraft from the fleet and reduce the company payroll by some 3 000 further positions.

This new and substantially smaller company is SWISS's direct response to the fundamental changes currently under way in the airline market. On its intercontinental services, SWISS will continue to offer its tried-and-trusted premium quality in three classes. On its European services, customers will be able to choose from a range of price and product options.

"Round-table" discussions with suppliers and partners are proceeding well and in a positive spirit. The talks and negotiations with Unique, Gate Gourmet, SR Technics, Swissport, Cargologic and further suppliers and partners are designed to put SWISS on a sound cost footing. Securing this solid foundation is crucial to the company achieving sustained success.

Market and product

The "Swiss TravelClub", SWISS's new frequent flyer programme, was launched on January 1, 2003. Miles earned under its predecessor programme remained valid, and could continue to be redeemed for awards under the previous programme's terms until the end of February. New terms and conditions were introduced from March 1.

The company's "Swiss Europe Savers" programme, which offers flights bookable online at particularly attractive fares, was extended to 21 European routes from the start of June. In view of the success of the initial programme, which had been limited to departures from Geneva, the new routes also saw the concept extended to Zurich and Basel.

In introducing its new business model for the European markets, SWISS is taking an innovative path in pricing and product differentiation terms. Under the new concept, the price of the ticket on European flights will be determined directly by demand: if demand is high, the price will rise; if demand is low, the price will be lower, too. In simple terms, the new concept means that people who book their flight early will stand the best chance of benefiting from a lower fare. In addition to attractive Business and Economy Class fares, the new approach will also provide greater pricing transparency.

Future customers on SWISS's European services will also see and feel a clear distinction between the Swiss Business and Swiss Economy products. While Swiss Business travellers will continue to enjoy the familiar premium product with its comprehensive on-board service and its popular inflight cuisine, Swiss Economy customers can expect a product that is tailored specifically to their needs: on top of a basic product offering the usual friendly service, Swiss Economy passengers can continue to enjoy inflight foodservice if they wish, subject to an additional charge. Thus, whatever class or product they choose, SWISS travellers will receive precisely the service they desire.

The company also reorganised its charter business for the start of the 2003 summer schedules. The charter fleet of three new Airbus A320 aircraft, the last of which will be delivered in 2004, will operate under the "Swiss Sun" name. These aircraft have been specially configured for charter operations and – as attractive innovations – feature Sony PlayStations and an external camera mounted under the fuselage to ensure great entertainment for the young and the young-at-heart on board.

SWISS also extended its presence to six continents in spring 2003. The new Australian service is the result of attractive codeshare agreements with Japan Airlines and Qantas. The company also concluded a codeshare agreement with Finnair.

Personnel and organisational developments

Two key appointments were announced in mid-March, when Ulrik Svensson was named Managing Director Finance from mid-May and Manfred Brennwald was appointed Managing Director Operations (with responsibility for the Technical Services and Flight Operations divisions) from the beginning of April. Their appointments complete the new three-member top management level reporting directly to CEO André Dosé: William Meaney had already assumed his new duties as Managing Director Commercial on January 1.

The company informed its shareholders about its results for the 2002 business year at its Annual General Meeting in Basel on May 6. The shareholders approved all the recommendations of the Board of Directors – including a reduction in the company's share capital – by sizeable majorities. The AGM also saw changes to the Board of Directors. The total number of Board members was reduced from eleven to nine, as planned. Kevin Benson, Philip Geier and Riccardo Gullotti resigned from the Board; and Walter Bosch, a Swiss marketing and communications specialist, and Jan Audun Reinas, a Norwegian airline expert, were newly elected to its ranks.

The total workforce at SWISS (including its subsidiaries) stood at 9 331 full-time positions on June 30, 2003, a reduction of 1 190 on the 10 521 positions at the end of March. More jobs have been eliminated since the beginning of July through natural attrition and dismissals. As a result, and as projected, personnel numbers will see a further decline over the second half of the year.

Having reached agreement with its cabin and ground personnel on its planned workforce downsizing, SWISS management also concluded an out-of-court agreement with the executive committee of the Swiss Pilots Association (SPA) on July 15 following months of negotiations. The union's members voted to approve the recommendations of its executive committee on August 8, thereby meeting one of the key conditions for SWISS to continue its restructuring. The agreement with the SPA can be regarded as a victory for all sides. The pilots leaving the company and those who will stay have both elected to accept a fair and generous offer from SWISS. In doing so, they have helped resolve a conflict which threatened the company's very existence, and have enabled everyone concerned to take a further key step on the road to restructuring and recovery.

In reaching these settlements, the company's unions and personnel have also sent a positive message of their own loyalty and commitment. Executive Management acknowledges and appreciates this substantial support from its employees – support which is particularly invaluable in the present difficult times.

Aircraft fleet

SWISS took delivery of its first Airbus A340-300 aircraft on the last day of June, initiating as scheduled the renewal of its long-haul fleet. A total of seven A340s will be delivered to SWISS by the end of the year, and will gradually replace the Boeing MD-11s presently in service, which are now some ten years old. SWISS has also concluded a binding memorandum of understanding with manufacturer Airbus Industrie covering the financing of the new transports. The first aircraft's delivery followed extensive negotiations which permitted a revision of the original aircraft order.

Discussions were also held with Embraer on modifications to the fleet size envisaged. As a result, the number of firm orders for Embraer 170s and Embraer 195s was reduced from 60 to 30 aircraft, and the commencement of deliveries was postponed from 2003 to 2004 (for the Embraer 170) and 2006 (for the Embraer 195). The number of options held was lowered from 100 to 20 aircraft.

Consolidated interim income statement

IFRS, unaudited	**Jan – June 2003** (in CHF million)	%	Jan – June 2002 (in CHF million)	%
Revenue from scheduled services	1 715	83.5	1 520	86.6
Revenue from cargo and mail services	260	12.6	147	8.4
Revenue from charter and special flights	57	2.8	66	3.8
Revenue from other operations	22	1.1	21	1.2
Total revenue	**2 054**	100.0	**1 754**	100.0
Other operating income	44		53	
Total income from operating activities	**2 098**		**1 807**	
Cost of materials	- 668		- 506	
Cost of services	- 767		- 761	
Personnel expenses	- 545		- 429	
Depreciation and amortisation	- 116		- 93	
Loss on disposal of fixed and intangible assets	- 12		- 0	
Other operating expenses	- 336		- 451	
Total operating expenses	**- 2 444**		**- 2 240**	
Loss from operating activities	**- 346**		**- 433**	
Financial profit/loss	15		- 14	
Income taxes	- 2		0	
Minority interests	0		0	
Net loss for the period	**- 333**		**- 447**	

Prior-year comparisons: Revenue results for the prior year are only comparable to a limited extent, as SWISS did not commence its intercontinental flight operations until the second quarter of 2002. Year-on-year cost comparisons are also only meaningful to a limited degree, since the Airbus A320-family fleet used to operate the extended European network in the first quarter of 2002 was leased-in from Swissair under a “wet lease” agreement, i.e. including the requisite crews.

The one-off restructuring costs of around CHF 200 million arising from the restructuring activities announced on June 24, 2003 are not included in the above results.

Earnings per share

IFRS, unaudited	**Jan – June 2003** (in CHF)	Jan – June 2002 (in CHF)
Earnings per share	- 6.33	- 9.07

Consolidated interim balance sheet

Assets IFRS, unaudited	**At 30.6.2003** (in CHF million)	 %	At 31.12.2002 (in CHF million)	 %
Current assets				
Cash and cash equivalents	757		1 128	
Fixed-term deposits (3-12 months)	54		60	
Marketable securities	0		68	
Trade and other receivables	789		683	
Other current assets	151		166	
Total current assets	**1 751**	40.0	**2 105**	45.1
Non-current assets				
Aircraft fleet	2 050		2 066	
Property, plant and equipment	302		266	
Other non-current assets	278		231	
Total non-current assets	**2 630**	60.0	**2 563**	54.9
Total assets	**4 381**	100.0	**4 668**	100.0

Liabilities and shareholders' equity IFRS, unaudited	**At 30.6.2003** (in CHF million)	 %	At 31.12.2002 (in CHF million)	 %
Liabilities				
Trade and other payables	378		501	
Interest-bearing current liabilities	270		163	
Unearned transportation revenue	567		450	
Other current liabilities	587		535	
Total current liabilities	**1 802**		**1 649**	
Interest-bearing non-current liabilities	835		939	
Other non-current liabilities	377		364	
Total non-current liabilities	**1 212**		**1 303**	
Total liabilities	**3 014**	68.8	**2 952**	63.2
Minority interests	7	0.2	7	0.2
Shareholders' equity				
Share capital	1 681		2 627	
Share premium	0		338	
Treasury shares	0		0	
Reserves	- 321		- 1 256	
Total shareholders' equity	**1 360**	31.0	**1 709**	36.6
Total liabilities and shareholders' equity	**4 381**	100.0	**4 668**	100.0

Personnel numbers

IFRS, unaudited	**At 30.6.2003**	At 31.12.2002
Full-time positions	9 331	10 606

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