



## **SWISS cuts loss by half in third quarter**

**Swiss International Air Lines (Group) reported a negative operating result (EBIT) before restructuring costs of CHF 62 million in the third quarter of 2003, but the loss was lower than that for the second quarter of the current year (CHF -147 million) as well as for the first quarter (CHF -199 million).**

**On the group level SWISS generated total revenue of CHF 3 098 million for the first nine months of 2003 and posted a year-to-date operating result before restructuring costs (EBIT) of minus CHF 408 million. The costs anticipated for the current corporate restructuring appear in the third-quarter results in the form of a CHF 205 million provision, broadly in line with the CHF 200 million originally announced. The company's liquidity (cash and cash equivalents plus fixed-term deposits) totalled CHF 654 million on September 30, 2003.**

The company's *Foundation for Winning* corporate restructuring programme is well on track. *SWISS in Europe*, the new business model for the company's European product, was well received by the market, and is already helping to raise load factors on European flights. SWISS is working intensely to prepare for entry into the oneworld alliance, which will occur at the end of March 2004. SWISS is also enjoying continued high popularity, as is evidenced by its recent receipt in New York of the World Travel Award for Europe's Leading Airline.

SWISS carried 2.92 million passengers in the third quarter of 2003, generating revenue from scheduled services of CHF 856 million. The corresponding revenue figure for the first nine months was CHF 2 571 million. Third-quarter seat load factors averaged 77.6%, a slight improvement on the 77.3% recorded for the same period last year. Net yield – average revenue per revenue passenger-kilometre – stood at CHF 0.117 for the period, down 10.7% from CHF 0.131 for the same period last year. The decline is due partly to a further industrywide deterioration in yields during the third quarter, although a continuing recovery of the markets following the Iraq war and the SARS epidemic is noticeable. Unfavourable foreign exchange rates had a negative yield impact of 3.4%. Revenue from cargo and mail services totalled CHF 120 million for the third quarter, a decline of just under 8 per cent on second-quarter levels. This result is respectable in light of the parallel 8 per cent drop in cargo capacity in the wake of the SARS epidemic. Charter operations were encouraging: with revenue from charter and special flights amounting to CHF 51 million for the quarter, total revenue of CHF 108 million was generated from these activities in the first nine months.

## Swiss International Air Lines (Group), Basel

### Comments on the financial result

#### **A third-quarter operating EBIT of minus CHF 62 million**

EBIT before restructuring costs for the third quarter improved to minus CHF 62 million. SWISS thus posted a year-to-date EBIT before restructuring costs of minus CHF 408 million.

Provisions amounting to CHF 205 million were effected for the costs specifically related to the Foundation for Winning corporate restructuring programme. The provisions are intended to cover the costs arising from the "Sozialplan" severance benefits package and early retirements, and the expenditure incurred through the closure of operations outside Switzerland, and phase-out costs of redundant aircraft.

The net financial result remained positive, and was buoyed in particular by the beneficial impact in cost terms of a weak US dollar. After the financial result, income taxes and minority interests, SWISS posted a net loss after restructuring costs of CHF 609 million for the first nine months of 2003.

#### **Liquidity trends**

The consolidated balance sheet showed liquidity (cash and cash equivalents plus fixed-term deposits) of CHF 654 million at the end of September 2003. Some CHF 614 million of this amount consisted of cash and cash equivalents, and CHF 40 million was held in fixed-term deposits. Liquidity thus declined CHF 157 million from its end-of-June levels. The net cash outflow followed a reduction from CHF 343 million in the first quarter to CHF 102 million in the second. It has to be noted that the company received CHF 70 million from Embraer in the second quarter of 2003. This sum was a payback of deposits in connection with the reduction of aircraft orders.

The value of the aircraft fleet amounted to CHF 2 106 million at the end of September 2003 – a CHF 56 million increase on its end-of-June value. The sole addition in the third quarter was the arrival in September of the second Airbus A340. The CHF 7 million decline in the property, plant and equipment position compared to the end of June 2003 is broadly in line with normal depreciation on these items. The ratio of fixed to total assets stood at some 64% at the end of September.

Irrespective of the liquidity trends deriving from its day-to-day business operations, SWISS is working on an additional liquidity cushion to protect it from unforeseen events. To secure this, the company is currently conducting intensive negotiations with the major Swiss banks and international financial institutions.

#### **Shareholders' equity of CHF 1 084 million**

Shareholders' equity totalled to CHF 1 084 million after incorporation of the loss incurred for the first nine months of 2003. The balance sheet equity ratio stood at 25.7%.

### The world airline market: current state and developments

Having experienced extremely turbulent and downward trends in the first half of the year, the airline market saw a stabilisation in demand around the world in the third quarter of 2003. Indeed, according to statistics provided by the Association of European Airlines (AEA), Europe's air carriers have been reporting higher traffic volumes than in 2002 since June for most regions of the world, with the notable exception of the Far East. The Far East market also returned to real growth in mid-October. The International Air Transport Association (IATA) also shows a recovery of the global demand for air services in its latest report. Industry prognosis, however, point to increasing pressure on airline yields.

### Sustainable restructuring lays a foundation for the future

In launching its *Foundation for Winning* programme, SWISS Executive Management resolved to embark on a radical corporate restructuring project whose implementation has been pursued on all fronts since early summer. The programme, which is designed to secure sustainable profitability, rests on three cornerstones: (1) eliminating the biggest loss-making routes, (2) lowering costs on both the operational and the administrative front, and (3) introducing SWISS in Europe, the new European business model. Foundation for Winning aims to reduce annual costs by a total of CHF 1.6 billion. Some CHF 600 million of this should be achieved through an actual unit cost reduction and CHF 1 billion through the cost reductions deriving from the downsizing of operations.

With the adoption of the new winter schedules, the network consolidation is almost complete. Most of the aircraft now surplus to needs have been placed with new operators. Of the 25 original Embraer 145s, the eleven now no longer required have all been leased out on long-term agreements. Eight of the 16 surplus Saab 2000s have also been leased out, while provisional lease agreements have been concluded for a further two. New operators are still being sought for the remaining six aircraft. The successes complete a further (and difficult) step in SWISS's restructuring endeavours. On the supplier front, some of the renegotiations intended to lower procurement costs have already been concluded, and others have seen substantial progress made. And 2 500 of the 3 000 personnel positions to be eliminated had been identified by the end of October. Notice has been served on 2 000 employees, while 500 positions have been abolished through early retirements, part-time employment models and natural attrition. The remaining positions to be eliminated are currently being identified. The majority of the dismissed employees will leave the company in the fourth quarter of this year. SWISS in Europe, the new European business model, was introduced at the end of August. It was well received, and bookings are showing promising trends.

### SWISS to join the oneworld alliance

Swiss International Air Lines Ltd. accepted a formal invitation to join the **oneworld** alliance on September 23. The move paves the way for SWISS to enter this global partnership of leading air carriers. SWISS will become **oneworld's** ninth member, joining reputed partners American Airlines, British Airways, Qantas, Cathay Pacific, Iberia, LanChile, Finnair and Aer Lingus. In addition to the **oneworld** accord, SWISS and British Airways have concluded a bilateral agreement which will lead both carriers into their own strategic alliance. The strategic alliance between the two airlines consists of codeshare flights, a joint frequent flyer programme and a guarantee of CHF 50 million from British Airways.

## Swiss International Air Lines (Group), Basel

### General information

Once SWISS is fully integrated into **oneworld**, its passengers should benefit from the new alliance in a number of ways. First and foremost, they will enjoy the appeal of the alliance's global route network. The **oneworld** partners operate 8 600 flights a day to more than 570 destinations in 136 countries. Thus, while consolidating its route portfolio, SWISS is determined to retain its role as Switzerland's home carrier, and will continue to offer services between Switzerland and the world's most important business and tourist destinations – either directly from Zurich, Basel and Geneva or on a partner carrier via one of the **oneworld** hubs.

Upon membership in **oneworld** the SWISS timetable will be coordinated as closely as possible with those of the alliance partners. Extensive coordination of gate locations within the airport terminals will ensure smooth, more relaxing travel for passengers. SWISS customers will be able to collect and redeem frequent flyer miles on all **oneworld** services. The Swiss TravelClub, SWISS's frequent flyer programme, will gradually be incorporated into the Executive Club, its British Airways equivalent. But any miles earned with SWISS will retain their validity. In the not-too-distant future, SWISS travellers should also have access to the 380 lounges which the **oneworld** members maintain on all six continents.

In advance of these changes, which will be fully introduced by mid 2004, SWISS is now preparing for the close collaboration with its **oneworld** partners. Aside from the numerous contracts regulating the partnership, the primary focus is on training SWISS employees in products and services specific to **oneworld**.

### Award as best European airline

SWISS was named "Europe's Leading Airline" at the World Travel Awards in New York on October 13, earning the distinction ahead of reputed rivals such as British Airways, Lufthansa and Air France. The award is the third of its kind this year.

### SWISS in Europe

SWISS has put efficiency centre stage with "SWISS in Europe", the new business model for its European services, producing a concept that is tailored as closely as possible to every passenger and every pocket. SWISS in Europe is a direct response to changing customer needs, as more and more travellers seek an optimum combination of attractive fares, punctual services, convenient schedules, connection options and rebooking possibilities, especially for short European flights.

The SWISS in Europe concept, which was introduced on August 28, has been well received by the market. It is too early for a final assessment of the profitability impact of the new concept, but the key figures are developing in line with expectations: the yield, as the average "revenue per revenue passenger kilometre" (RRPK), for September and October, decreased by roughly 12% compared to the value for the same periods last year. The average seat load factor (SLF) on the other hand increased by 6.4% for September and by 17.3% for October on the same periods last year. Thanks to a better than expected SLF, the "revenue per available seat kilometre" (RASK), performed above expectations. While in September the RASK was down 6.5% on the same period last year, estimates for October indicate an overcompensation of the yield decrease by the volume increase, which results in an increase of the RASK on the value reached in October of last year. This had been expected for 2004 only.

## Swiss International Air Lines (Group), Basel

### General information

SWISS in Europe offers the customer numerous new benefits:

*A new fare system:* SWISS in Europe offers attractive fares to every European destination. The permanently low prices are available for Swiss Economy or Swiss Business travel. The new concept also offers greater pricing transparency, as the fare level is directly related to demand: travellers who book early or are flexible on their travel date or time will tend to obtain a lower fare. SWISS in Europe offers greater flexibility, too: the outward and return journeys can now be booked in different classes of travel. The new concept also features a user-friendly internet portal that allows the customer to put together their own travel package, benefiting from the best prices available as they do so. Needless to say, SWISS tickets can still be obtained from travel agencies, SWISS call centres or SWISS air travel offices, too.

*Inflight service:* SWISS continues to offer its premium Business Class product, including lounge facilities, a wide range of newspapers and the usual superior inflight cuisine. Swiss Economy passengers, meanwhile, can decide for themselves what services they wish to take advantage of, and can purchase drinks and smaller or more extensive snacks if they wish.

*Further benefits:* All SWISS passengers, whatever class they are travelling in and whatever fare they have paid, continue to enjoy all the benefits that a network carrier can offer: timetables that are carefully coordinated with those of alliance partners, centrally-located airports, frequent services and attractive frequent-flyer programmes, to name just a few.

### SWISS on intercontinental routes

Intercontinental passengers will continue to enjoy SWISS's traditionally high-quality inflight foodservice in all three seating classes. And, with the introduction of the new long-haul Airbus A340, travellers in all classes can delight in a product that meets the demands of the most discerning inflight guest. SWISS already has three of its new flagships in service, and four more should be delivered by the end of the year.

The brand-new interior design provides a general sense of space and well-being on board. In effecting this investment, SWISS is ensuring that it can continue to offer a state-of-the-art product that is ideally tailored to its passengers' wishes and needs, even on ultra-long flights. The seat in the Swiss First compartment on the Airbus A340 has been modified and can now be reclined to provide a totally-flat bed which is 203 centimetres long. In Swiss Business, meanwhile, the generous seat pitch (distance between rows) of 152 centimetres and the new lie-flat seats are a firm guarantee of a wholly relaxing flight. And the new Swiss Economy cabin offers a quality product at a reasonable price, including the biggest seat-back screens in the business (at almost 24 centimetres) and a generous 81-centimetre seat pitch.

### Harmonising and renewing the aircraft fleet

Harmonising the SWISS aircraft fleet is a further key element in SWISS's endeavours to establish a lower cost structure. Operating a family of aircraft types offers productivity gains on the operational front and synergic potential in training and maintenance terms. The current replacement of the company's long-haul Boeing MD-11s by state-of-the-art Airbus A340s is a major step in this direction: once the renewal is complete, SWISS will have an entire fleet of long-haul aircraft (A330s and A340s) whose flight decks are virtually identical. This in turn will enable SWISS to extend its "mixed fleet flying" cockpit crew assignment concept to its long-haul operations. Under mixed fleet flying, a pilot is qualified to fly multiple aircraft types,

## **Swiss International Air Lines (Group), Basel**

### **General information**

as and when required. The synergies here are of sizeable dimensions, making the investments involved wholly worthwhile in economic terms.

#### **New organisational structure**

At its meeting on November 17, 2003, the Board of Directors approved the new organisational structure as proposed by Executive Management.

The one-third reduction in SWISS flight operations has resulted in the elimination of 3 000 positions. As a logical consequence, management functions and composition will be restructured accordingly.

The new organisation retains the existing Executive Management made up of the President and Chief Executive Officer and three managing directors: Managing Director Commerce CCO, Managing Director Operations COO, and Managing Director Finance CFO. The number of management levels is unchanged.

Various divisions will be regrouped or combined and made subordinate to other divisions. For example, the two pilot corps will now be under the command of one person, the head of Fleet and Cockpit (Vice President), who reports directly to the Chief Operations Officer (COO) Manfred Brennwald.

The existing Executive Vice President Flight Operations Thomas Brandt will be reassigned to new duties within SWISS management.

The new organisation will eliminate a total of 330 positions. Combined with the 2 500 positions identified at the end of October and a final 170 positions currently under review, the original downsizing figure of 3 000 positions will be met.

The revised organisation will be introduced gradually.

**Swiss International Air Lines (Group), Basel**  
**Consolidated income statement 1<sup>st</sup> - 3<sup>rd</sup> quarter, unaudited**

| in CHF million  | 1 <sup>st</sup> - 3 <sup>rd</sup> Quarter<br>2003 | 1 <sup>st</sup> - 3 <sup>rd</sup> Quarter<br>2002 |
|---|---|---|
| Revenue from scheduled services   | 2 571   | 2 678   |
| Revenue from cargo services   | 380   | 281   |
| Revenue from charter and special flights                                | 108   | 141   |
| Revenue from other operations   | 39  | 34  |
| <b>Total revenue</b>  | <b>3 098</b>                                      | <b>3 134</b>                                      |
| Gains on disposal of fixed and intangible assets                        | 0   | 5   |
| Other operating income  | 76  | 74  |
| <b>Total income from operating activities</b>                           | <b>3 174</b>                                      | <b>3 213</b>                                      |
| Cost of materials   | -994  | -910  |
| Cost of services  | -1 124  | -1 283  |
| Personnel expenses  | -791  | -703  |
| Depreciation and amortisation   | -180  | -214  |
| Loss on disposal of fixed and intangible assets                         | -12   | 0   |
| Other operating expenses  | -481  | -651  |
| <b>Loss from operating activities (EBIT) before restructuring costs</b> | <b>-408</b>                                       | <b>-548</b>                                       |
| Restructuring costs   | -205  | 0   |
| <b>Loss from operating activities (EBIT) after restructuring costs</b>  | <b>-613</b>                                       | <b>-548</b>                                       |
| Income from associates  | 1   | 2   |
| Loss on disposal of subsidiaries  | 0   | 0   |
| Financial expenses  | -36   | -58   |
| Financial income  | 43  | 24  |
| <b>Loss before tax (EBT)</b>  | <b>-605</b>                                       | <b>-580</b>                                       |
| Income taxes  | -3  | -1  |
| <b>Loss after tax</b>   | <b>-608</b>                                       | <b>-581</b>                                       |
| Minority interest   | -1  | -1  |
| <b>Net loss for the period</b>  | <b>-609</b>                                       | <b>-582</b>                                       |
| in CHF  |   |   |
| Earnings per share (EPS)  | -11.58  | -11.42  |

**Prior-year comparisons:** Revenue results for the first nine months of 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, operated on the extended European network, was leased-in from Swissair under a so called "wet-lease" agreement in the first quarter of 2002. Such a wet-lease agreement of aircraft includes i.e. the requisite crews.

**Swiss International Air Lines (Group), Basel**  
**Consolidated income statement 3<sup>rd</sup> quarter, unaudited**

| in CHF million  | 3 <sup>rd</sup> Quarter<br>2003 | 3 <sup>rd</sup> Quarter<br>2002 |
|---|---------------------------------|---------------------------------|
| Revenue from scheduled services   | 856                             | 1 158                           |
| Revenue from cargo services   | 120                             | 134                             |
| Revenue from charter and special flights                                | 51                              | 75                              |
| Revenue from other operations   | 17                              | 13                              |
| <b>Total revenue</b>  | <b>1 044</b>                    | <b>1 380</b>                    |
| Gains on disposal of fixed and intangible assets                        | 0                               | 5                               |
| Other operating income  | 32                              | 21                              |
| <b>Total income from operating activities</b>                           | <b>1 076</b>                    | <b>1 406</b>                    |
| Cost of materials   | -326                            | -404                            |
| Cost of services  | -357                            | -522                            |
| Personnel expenses  | -246                            | -274                            |
| Depreciation and amortisation   | -64                             | -121                            |
| Loss on disposal of fixed and intangible assets                         | 0                               | 0                               |
| Other operating expenses  | -145                            | -200                            |
| <b>Loss from operating activities (EBIT) before restructuring costs</b> | <b>-62</b>                      | <b>-115</b>                     |
| Restructuring costs   | -205                            | 0                               |
| <b>Loss from operating activities (EBIT) after restructuring costs</b>  | <b>-267</b>                     | <b>-115</b>                     |
| Income from associates  | 0                               | 1                               |
| Loss on disposal of subsidiaries  | 0                               | 0                               |
| Financial expenses  | -11                             | -21                             |
| Financial income  | 4                               | 2                               |
| <b>Loss before tax (EBT)</b>  | <b>-274</b>                     | <b>-133</b>                     |
| Income taxes  | -1                              | -1                              |
| <b>Loss after tax</b>   | <b>-275</b>                     | <b>-134</b>                     |
| Minority interest   | -1                              | -1                              |
| <b>Net loss for the period</b>  | <b>-276</b>                     | <b>-135</b>                     |

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

| in CHF million                                      | <b>30 September<br/>2003</b> | <b>31 December<br/>2002</b> |
|---|------------------------------|-----------------------------|
| Cash and cash equivalents                           | 614                          | 1 128                       |
| Fixed-term deposits (3-12 months)                   | 40                           | 60                          |
| Marketable securities                               | 1                            | 68                          |
| Derivative assets                                   | 89                           | 74                          |
| Trade receivables                                   | 458                          | 522                         |
| Other receivables                                   | 265                          | 161                         |
| Inventories   | 35                           | 40                          |
| Prepaid expenses and accrued income                 | 20                           | 52                          |
| <b>Current assets</b>                               | <b>1 522</b>                 | <b>2 105</b>                |
| Aircraft fleet                                      | 2 106                        | 2 066                       |
| Property, plant and equipment                       | 295                          | 266                         |
| Intangible assets                                   | 18                           | 14                          |
| Investments in associates                           | 7                            | 8                           |
| Loans, other investments and<br>deferred tax assets | 273                          | 209                         |
| <b>Non-current assets</b>                           | <b>2 699</b>                 | <b>2 563</b>                |
| <b>Total assets</b>                                 | <b>4 221</b>                 | <b>4 668</b>                |
| Trade payables                                      | 257                          | 411                         |
| Income tax payable                                  | 0                            | 1                           |
| Interest-bearing liabilities                        | 306                          | 163                         |
| Derivative liabilities                              | 56                           | 35                          |
| Other payables                                      | 95                           | 89                          |
| Unearned transportation revenue                     | 510                          | 450                         |
| Accrued expenses and prepaid income                 | 490                          | 500                         |
| <b>Current liabilities</b>                          | <b>1 714</b>                 | <b>1 649</b>                |
| Interest-bearing liabilities                        | 833                          | 939                         |
| Employee benefit obligations                        | 38                           | 42                          |
| Provisions  | 545                          | 322                         |
| <b>Non-current liabilities</b>                      | <b>1 416</b>                 | <b>1 303</b>                |
| <b>Total liabilities</b>                            | <b>3 130</b>                 | <b>2 952</b>                |
| <b>Minority interest</b>                            | <b>7</b>                     | <b>7</b>                    |
| Share capital                                       | 1 683                        | 2 627                       |
| Share premium                                       | 0                            | 338                         |
| Treasury shares                                     | 0                            | 0                           |
| Reserves  | -599                         | -1 256                      |
| <b>Total shareholders' equity</b>                   | <b>1 084</b>                 | <b>1 709</b>                |
| <b>Total liabilities and shareholders' equity</b>   | <b>4 221</b>                 | <b>4 668</b>                |