



## Results for the 2003 business year

**Swiss International Air Lines Ltd. (Group) generated total consolidated income from operating activities of CHF 4 126 million in 2003 and posted an operating result or EBIT before restructuring costs of minus CHF 498 million for the year, a substantial improvement on its prior-year equivalent (minus CHF 909 million). The full positive impact of the restructuring measures taken will only be felt, however, in the course of 2004 and 2005. Provisions of CHF 205 million were effected in the third quarter of 2003 to cover restructuring costs. The net loss for 2003 after interest and taxes amounted to CHF 687 million, compared to a prior-year net loss of CHF 980 million.**

**Through active cash management liquid funds totaled CHF 503 million on December 31, 2003, significantly above original projections.**

The Group's strategic realignment is proceeding according to plan. It is based on three cornerstones: (1) a sustainably profitable route network, with a corresponding downsizing of the aircraft fleet, (2) a significant reduction in the cost structure, in terms of both flight operations and administration, and (3) SWISS in Europe, SWISS's response to changing consumer behavior in Europe and increasing competition from low-cost European carriers.

Provisions of CHF 205 million were effected in the third quarter of 2003 to finance the associated corporate restructuring. These provisions are intended to cover the costs of severance benefit packages, early retirements, the closure of a number of offices outside Switzerland and the aircraft fleet reduction.

### **Operating result (EBIT) of minus CHF 498 million**

SWISS reported an EBIT before restructuring costs of minus CHF 498 million for 2003 as a whole. The result represents a 45.2% year-on-year reduction in operating losses. EBIT before restructuring costs for the fourth quarter of 2003 amounted to minus CHF 90 million, somewhat below the minus CHF 62 million of the traditionally stronger third quarter.

The financial result reflects the positive effect of a weaker US dollar. After the financial result, income taxes and Group-related items, SWISS recorded a net loss after restructuring costs of CHF 687 million for the year. This compares to a prior-year net loss of CHF 980 million.

## Swiss International Air Lines (Group), Basel

### Comments on the financial result

#### Liquidity of CHF 503 million

Active cash management is playing a key role in SWISS's turnaround. Liquidity-improving measures implemented in the course of 2003 are having a positive effect. The consolidated balance sheet at December 31, 2003 showed liquid funds (cash and cash equivalents, fixed-term deposits and marketable securities) of CHF 503 million. The actions taken helped limit the net outflow of liquid funds during the fourth quarter to CHF 152 million, despite the negative effect of restructuring costs and the delivery of five new Airbus A340s.

Within the overall framework of its imminent membership of **oneworld**, SWISS entered into a strategic alliance with British Airways. In addition to commercial considerations, the terms of the alliance included British Airways' provision of a CHF 50 million financial guarantee. This guarantee permitted the conclusion of a credit agreement for this amount with Barclays Bank plc on March 12, 2004. SWISS drew the full credit amount on March 16, 2004.

Independently of liquidity trends in the light of business operations, SWISS is striving to create a liquidity buffer to cushion the impact of any unforeseen events. To this end, the company has been involved in intensive negotiations for several months with the major Swiss banks and international financial institutions abroad. As the negotiations also involve the refinancing of part of the SWISS aircraft fleet (these assets will serve as collateral on the loan amount), the discussions are extremely complex and are taking more time than was originally envisaged. With the company's liquidity developing better than expected, the loan from Barclays Bank already in place, the summer months with their stronger revenue flows coming up and substantial cost reductions effected, the time pressure on concluding these negotiations has been significantly reduced compared to when the restructuring program was launched. According to current planning the liquidity level is expected to stay above CHF 250 million, even at its lowest point in the second quarter of 2004, with expectations of a further increase thereafter.

#### Shareholders' equity

Shareholders' equity stood at CHF 1 022 million after incorporation of the net loss for 2003, giving an equity ratio at December 31, 2003 of 26.4%.

The Ordinary General Meeting of May 6, 2003 voted to reduce the nominal value of SWISS shares from CHF 50 to CHF 32 per share. Share capital decreased accordingly by CHF 946 million, from CHF 2 627 million to CHF 1 681 million. The share premium was simultaneously reduced by CHF 338 million, and the loss brought forward was reduced by the same amount. Share capital was increased to CHF 1 685 million in the second half of 2003 through the issue of a small number of conditional shares.

The value of the aircraft fleet amounted to CHF 2 247 million at December 31, 2003, CHF 181 million more than its prior-year equivalent. The increase was due to the delivery of seven new Airbus A340s in the course of the year. These acquisitions were offset by the sale of a number of surplus aircraft. The value of property, plant and equipment stood at CHF 246 million. In the fourth quarter total depreciation amounted to CHF 49 million due to special depreciations on buildings in Basel, Zurich and Geneva, which in part are no longer used. Due to investments capitalized in the course of 2003, the year-end figure for 2003 only shows a decline of CHF 20 million on the prior-year figure. The ratio of fixed to total assets at December 31, 2003 was 70.4% (compared to 54.9% for the previous year).

## Swiss International Air Lines (Group), Basel

### General information

#### Load factor

An extremely turbulent and recessive market environment had an industrywide impact on traffic volume and load factors in the first half of 2003. While the market is now recovering from its various crises, these events still left their mark on the year's average traffic and load factor results.

SWISS carried a total of 10.66 million passengers in 2003 and achieved an average seat load factor of 72.4%, a year-on-year increase of 1.4 percentage points. Fourth-quarter load factor showed an above-average year-on-year increase: the 75.0% achieved was some 4.2 percentage points higher than the prior-year period. The launch of the new SWISS in Europe business concept at the end of August 2003 and the adjustments to the route network which came into effect with the cutover to the 2003/04 winter schedules on October 26 clearly had a positive effect here.

#### Revenue

With a more-than-hesitant economic recovery in Europe and the dampening impact on demand of the terrorist threat and other international crises, average revenues per passenger remained under pressure throughout the airline industry.

SWISS is impacted by this trend along with the rest of the airline industry. The most important figure, however, the revenue per available seat-kilometre (RASK), determined by the seat-load factor and the average revenue per passenger transported, shows a positive trend, both on SWISS's European and intercontinental networks. On the intercontinental routes the RASK compared to its prior-year levels improved from a minus of 10 percent for the second quarter to a minus of 4 percent for the third quarter and a minus of 2 percent for the fourth quarter. On the European network the RASK not only showed a positive trend, but actually improved in absolute terms on its prior-year levels. After a negative start posting a minus of 2 percent for the second quarter, the third quarter showed a plus of 2 percent, followed by a plus of 9 percent in the fourth quarter. First quarter figures cannot be compared, since SWISS only started operating intercontinental flights in the second quarter of 2002. The encouraging development can be ascribed to the resizing of the route network and the launch of the new SWISS in Europe concept, whose combined impact has both increased load factors and raised RASK yields.

#### A clear focus on the core business

As a Group, SWISS is clearly focused on its core business of flight operations, generating 95.9% of its 2003 total consolidated operating income of CHF 4 126 million from its scheduled services, charter and cargo activities. Passenger revenue from scheduled services made the largest contribution of CHF 3 326 million to total operating income. Swiss WorldCargo generated revenue of CHF 498 million from its airfreight operations. These figures are not comparable with the 2002 figures, however, because SWISS did not operate intercontinental flights before the second quarter of 2002. Commercial responsibility for the long-haul business remained with the former Swissair for the first quarter of 2002. Charter operations contributed CHF 133 million to overall income results. The consolidated operating income of CHF 4 126 million also includes, as it did in 2002, CHF 50 million in other revenues from catering, ground handling and technical services and from duty-free and marketing income. A further CHF 119 million was generated from other activities (such as call center services) and exceptional sources (such as profits realized on fixed asset disposals).

## Swiss International Air Lines (Group), Basel

### General information

#### Competitive costs

The restructuring at SWISS required a clear reduction in expenditure to create competitive cost levels on both the flight operations and the administrative fronts. The desired decrease in unit costs, measured in cost per available seat-kilometre (CASK), began to be felt from November 2003 onwards, when the workforce reduction started to take effect, the new route network had been adopted with the cutover to the 2003/04 winter schedules and the first new supplier contracts had been concluded. The full impact of these measures will only be felt, however, in the course of 2004 and 2005.

The *cost of materials*, which includes the cost of fuel purchases, technical maintenance and inflight catering, amounted to CHF 1 262 million. Improvements to business processes and the renegotiation of supplier contracts generated savings on the technical maintenance front. A new cost-saving form of partnership was also concluded with the suppliers of inflight catering services.

The *cost of services* totaled CHF 1 401 million for 2003. The various cost items here showed differing trends. Some items saw their costs reduced in the wake of the resized flight operations, greater use of new distribution channels (especially the internet) or renegotiated supply contracts.

*Personnel expenses* amounted to CHF 958 million for the year. This figure only reflects the workforce reductions effected in connection with the corporate resizing to a limited degree: the impact of such actions is only fully felt once notice periods have expired and severance benefit obligations have been fulfilled. A large proportion of these obligations only ceased during the fourth quarter of 2003.

The *loss on the disposal of fixed and intangible assets* derived mainly from exchange-rate losses on the reimbursement of an advance payment (in US dollars) for Embraer regional jets, which was effected after SWISS reduced its original order by 30 aircraft in the course of the year.

**The financial part of the Annual Report will also be posted on [www.swiss.com](http://www.swiss.com), the company website, on Tuesday, March 23, 2004 at 11:00. See "Our Company" > "Investor Relations" > "Presentations".**

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

	<b>2003</b>	<b>2002</b>
in CHF million		
Revenue from scheduled services	3 326	3 630
Revenue from cargo services	498	421
Revenue from charter and special flights	133	177
Revenue from other operations	50	50
<b>Total revenue</b>	<b>4 007</b>	<b>4 278</b>
Gains on disposal of fixed and intangible assets	3	10
Other operating income	116	107
<b>Total income from operating activities</b>	<b>4 126</b>	<b>4 395</b>
Cost of materials	-1 262	-1 309
Cost of services	-1 401	-1 713
Personnel expenses	-958	-983
Depreciation and amortisation	-355	-323
Non-recurring items relating to the SAirGroup insolvency	0	-35
Loss on disposal of fixed and intangible assets	-13	-1
Other operating expenses	-635	-940
<b>Operating result (EBIT) before restructuring costs</b>	<b>-498</b>	<b>-909</b>
Restructuring costs	-205	0
<b>Operating result (EBIT) after restructuring costs</b>	<b>-703</b>	<b>-909</b>
Income from associates	1	2
Loss on disposal of subsidiary	0	-3
Financial expenses	-53	-96
Financial income	72	25
<b>Loss before tax (EBT)</b>	<b>-683</b>	<b>-981</b>
Income taxes	-3	2
<b>Loss after tax</b>	<b>-686</b>	<b>-979</b>
Minority interest	-1	-1
<b>Net loss for the year</b>	<b>-687</b>	<b>-980</b>
in CHF		
Earnings per share (EPS)	-13.06	-19.25

**Year-on-year comparability:** The revenue and income figures for 2002 and 2003 are only comparable to a limited degree, as SWISS did not assume commercial responsibility for intercontinental flight operations until the second quarter of 2002. The Airbus A320 fleet deployed to expand European operations in the first quarter of 2002 was "wet-leased" from Swissair, i.e. together with the flying personnel required. As a result, expenditure results for 2003 are also not comparable with those for the previous year.

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

in CHF million	At December 31, 2003	At December 31, 2002
Cash and cash equivalents	503	1 128
Fixed-term deposits (3-12 months)	0	60
Marketable securities	0	68
Derivative assets	52	74
Trade receivables	362	522
Other receivables	163	161
Inventories	33	40
Prepaid expenses and accrued income	34	52
<b>Current assets</b>	<b>1 147</b>	<b>2 105</b>
Aircraft fleet	2 247	2 066
Property, plant and equipment	246	266
Intangible assets	19	14
Investments in associates	6	8
Loans and other investments	208	208
Deferred tax assets	1	1
<b>Non-current assets</b>	<b>2 727</b>	<b>2 563</b>
<b>Total assets</b>	<b>3 874</b>	<b>4 668</b>
Trade payables	277	411
Income tax payable	0	1
Interest-bearing liabilities	286	163
Derivative liabilities	20	35
Other payables	54	89
Unearned transportation revenue	519	450
Accrued expenses and prepaid income	345	500
<b>Current liabilities</b>	<b>1 501</b>	<b>1 649</b>
Interest-bearing liabilities	920	939
Employee benefit obligations	19	42
Provisions	406	322
Deferred tax liabilities	0	0
<b>Non-current liabilities</b>	<b>1 345</b>	<b>1 303</b>
<b>Total liabilities</b>	<b>2 846</b>	<b>2 952</b>
<b>Minority interest</b>	<b>6</b>	<b>7</b>
Share capital	1 685	2 627
Share premium	0	338
Treasury shares	0	0
Reserves	-663	-1 256
<b>Total shareholders' equity</b>	<b>1 022</b>	<b>1 709</b>
<b>Total shareholders' equity and liabilities</b>	<b>3 874</b>	<b>4 668</b>

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

in CHF million	2003	2002
<b>Net loss for the year</b>	<b>-687</b>	<b>-980</b>
Depreciation and amortisation	355	323
Net foreign exchange (gain)/loss	-54	33
Net (gains)/losses on disposal of fixed and intangible assets	10	-9
Share of (profit)/loss of associates	-1	-2
Other non-cash movements	0	-63
Interest expenses	49	45
Interest income	-18	-25
Income tax	3	-2
Minority interest	1	1
(Increase)/decrease in trade and other receivables	180	-489
(Increase)/decrease in inventories	7	-6
(Increase)/decrease in prepaid expenses and accrued income	18	-40
Increase/(decrease) in trade and other payables	-185	343
Increase/(decrease) in accrued expenses and prepaid income	-76	539
Increase/(decrease) in employee benefit obligations	-23	37
Increase/(decrease) in provisions	84	101
Income tax paid	-3	0
<b>Net cash provided by/(used in) operating activities</b>	<b>-340</b>	<b>-194</b>
Acquisitions of aircraft	-173	-1 120
Disposals of aircraft	141	47
Acquisitions of property, plant and equipment	-61	-92
Disposals of property, plant and equipment	1	0
Acquisitions of intangible assets	-11	-17
Acquisitions of subsidiaries and minority holdings, net of cash acquired	-1	28
Acquisitions of other financial assets (including associates)	0	-224
Disposals of other financial assets	128	0
Interest received	18	25
Dividends received	3	0
<b>Net cash provided by/(used in) investing activities</b>	<b>45</b>	<b>-1 353</b>
Interest paid	-58	-47
Increase/(decrease) in financial liabilities	-228	232
Payment of finance lease liabilities	-40	-56
Issuance of new shares and settlement of unpaid capital	0	1 881
<b>Net cash provided by/(used in) financing activities</b>	<b>-326</b>	<b>2 010</b>
Increase/(decrease) in cash and cash equivalents	-621	463
Effect of exchange rate differences	-4	-34
Cash and cash equivalents at January 1	1 128	699
Cash and cash equivalents at December 31	503	1 128
Cash and cash equivalents comprise cash on hand, postal and bank account balances and short-term deposits with an original maturity of up to 90 days.		