



## **Consolidated Interim Financial Statements as of 30 June 2003**

### **Swiss International Air Lines Ltd.**

The following unaudited consolidated interim financial statements for the half year ending 30 June 2003, including the comparative figures, present a true and fair view of the consolidated financial position, results of operations and cash flow in accordance with the IAS 34. The accounting principles used conform to the accounting principles set out in the 2002 annual report. During the period under review, there have been no changes in accounting principles.

On 24 June 2003 the company announced the restructuring of its core business. All negotiations and the corresponding contract conclusions and union votes will take place in the 2<sup>nd</sup> half of the Fiscal Year 2003 only. At the present time, no final restructuring figures are available in detail. It is anticipated that the total restructuring cost will sum up to approximately 200 Mio. CHF. This amount is not included in the presented half-year-figures (see also section "subsequent events").

## Swiss International Air Lines Ltd., Basel

### Consolidated interim income statement (condensed, unaudited)

in millions of CHF	<b>30 June 2003</b>	<b>30 June 2002</b>
Scheduled services	1'715	1'520
Cargo services	260	147
Charter and special flights	57	66
Revenue from other operations	22	21
<b>Total revenue</b>	<b>2'054</b>	<b>1'754</b>
Other operating income	44	53
<b>Total income from operating activities</b>	<b>2'098</b>	<b>1'807</b>
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
<b>Profit / (loss) from operating activities</b>	<b>-346</b>	<b>-433</b>
Financial income and expenses, net	15	-14
<b>Profit / (loss) before tax</b>	<b>-331</b>	<b>-447</b>
Income taxes	-2	0
<b>Profit / (loss) after tax</b>	<b>-333</b>	<b>-447</b>
Minority interest	0	0
<b>Net profit / (loss) for the period</b>	<b>-333</b>	<b>-447</b>
in CHF	<b>30 June 2003</b>	<b>30 June 2002</b>
Earnings per share (basic)	-6.33	-9.07

## Swiss International Air Lines Ltd., Basel

### Consolidated interim balance sheet (condensed, unaudited)

in millions of CHF	Note	30 June 2003	31 December 2002
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
<b>Current assets</b>		<b>1'751</b>	<b>2'105</b>
Aircraft fleet	2	2'050	2'066
Property, plant and equipment		302	266
Intangible assets		19	14
Other non-current assets		259	217
<b>Non-current assets</b>		<b>2'630</b>	<b>2'563</b>
<b>Total assets</b>		<b>4'381</b>	<b>4'668</b>
Trade and other payables		378	501
Interest bearing liabilities		270	163
Unearned transportation revenue		567	450
Other current liabilities		587	535
<b>Current liabilities</b>		<b>1'802</b>	<b>1'649</b>
Interest bearing liabilities		835	939
Other non-current liabilities		377	364
<b>Non-current liabilities</b>		<b>1'212</b>	<b>1'303</b>
<b>Total liabilities</b>		<b>3'014</b>	<b>2'952</b>
Minority interest		7	7
Share capital		1'681	2'627
Share premium		0	338
Treasury shares		0	0
Retained Earnings / Reserves		-321	-1'256
<b>Total shareholders' equity</b>	3	<b>1'360</b>	<b>1'709</b>
<b>Total shareholders' equity and liabilities</b>		<b>4'381</b>	<b>4'668</b>

## Swiss International Air Lines Ltd., Basel

### Consolidated interim statement of changes in shareholders' equity (unaudited)

in millions of CHF	Share capital	Share premium	Treasury shares	Translation reserves	Hedging reserves	Revaluation Reserves	Retained earnings	Total
<b>Balance at 1 January 2002</b>	<b>2'322</b>	<b>306</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>-296</b>	<b>2'333</b>
Revaluation of available-for-sale investments	-	-	-	-	-	-	-	0
Currency translation differences	-	-	-	-	-	-	-	0
Gains / (losses) on hedging instruments	-	-	-	-	-5	-	-	-5
<b>Net gains and losses recognised directly in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-5</b>	<b>-</b>	<b>-</b>	<b>-5</b>
Net profit / (loss) for the period	-	-	-	-	-	-	-447	-447
Share options exercised by employees	-	-	0	-	-	-	-	0
Shares issued	297	32	-	-	-	-	-	329
Treasury shares purchased / sold	-	-	-	-	-	-	-	0
<b>Balance at 30 June 2002</b>	<b>2'619</b>	<b>338</b>	<b>0</b>	<b>0</b>	<b>-4</b>	<b>0</b>	<b>-743</b>	<b>2'210</b>
<b>Balance at 1 January 2003</b>	<b>2'627</b>	<b>338</b>	<b>0</b>	<b>-1</b>	<b>19</b>	<b>2</b>	<b>-1'276</b>	<b>1'709</b>
Revaluation of available-for-sale investments	0	0	0	0	0	-2	-	-2
Currency translation differences	0	0	0	1	0	0	0	1
Gains / (losses) on hedging instruments	0	0	0	0	-15	0	0	-15
<b>Net gains and losses recognised directly in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>-15</b>	<b>-2</b>	<b>0</b>	<b>-16</b>
Net profit / (loss) for the period	0	0	0	0	0	0	-333	-333
Share capital and –premium cut	-946	-338	0	0	0	0	1'284	0
Share options exercised by employees	0	-	-	-	-	-	-	0
Shares issued	0	-	-	-	-	-	-	0
Treasury shares purchased / sold	0	-	-	-	-	-	-	0
<b>Balance at 30 June 2003</b>	<b>1'681</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>-325</b>	<b>1'360</b>

## Swiss International Air Lines Ltd., Basle

### Consolidated interim cash flow statement (condensed, unaudited)

in millions of CHF	30 June 2003	30 June 2002
<b>Net profit / (loss) for the period</b>	<b>-333</b>	<b>-447</b>
Adjustments for income and expenses not involving the movement of funds	129	150
Changes in net working capital (other than cash and cash equivalents)	-33	15
<b>Net cash provided by / (used in) operating activities</b>	<b>-237</b>	<b>-282</b>
<b>Net cash provided by / (used in) investing activities</b>	<b>-111</b>	<b>-1'426</b>
<b>Net cash provided by / (used in) financing activities</b>	<b>-21</b>	<b>1'745</b>
Increase / (decrease) in cash and cash equivalents	-369	37
Effect of exchange rate differences	-2	0
<b>Cash and cash equivalents as at 1 January</b>	<b>1'128</b>	<b>699</b>
<b>Cash and cash equivalents as at 30 June</b>	<b>757</b>	<b>736</b>

Cash and cash equivalents comprise cash on hand, on post, on bank and short term deposits with an original maturity of less than 90 days.

## **Swiss International Air Lines Ltd., Basle**

### **Selected explanatory notes to the consolidated interim financial statements**

#### **1. Major events and developments during the six-month period ending 30 June 2003**

##### **1.1 Actions taken as a result of the Iraq crisis, the outbreak of SARS, the sluggish economy and radical changes in the airline market**

The entire first half of 2003 was marked by downsizing and restructuring activities at SWISS in the face of a still-weakening economy, the Iraq crisis, the outbreak of SARS and the general radical changes to the airline market.

The first cost-reduction programme had already been launched back in November 2002, when a decision was taken to reduce the size of the SWISS aircraft fleet. With the economy continuing to deteriorate and the situation tense in Iraq, the Board of Directors approved an additional restructuring programme at the end of February 2003 which called for the withdrawal of all or certain services on various routes to and from Zurich, Basel, Geneva, Lugano and Bern. The new measures also demanded a further downsizing of the aircraft fleet with the additional withdrawal of 17 regional aircraft, two Boeing MD-83s and one Airbus A320. These actions entailed the elimination of some 700 positions, and were scheduled to come into effect by the start of the summer schedules on 30 March.

The first attacks on targets in Iraq were launched on 20 March. SWISS's own "Task Force Iraq" became operational immediately. An initial assessment of the situation revealed that no SWISS aircraft were in the region at the time of the attacks. SWISS continued to monitor the situation daily, but was not forced to modify its schedules at any time during the hostilities. A higher security fee was temporarily levied, however, in view of the increased security precautions required.

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

On 24 June, SWISS announced a resizing and repositioning of its entire organisation. The action was taken after the company had concluded that radical steps were required if it was to achieve the further cost reductions needed to effect the turnaround desired. The Board of Directors thus resolved to withdraw a further 34 aircraft from the SWISS fleet and reduce the company payroll by some 3 000 further positions.

The new and substantially smaller company planned is SWISS's direct response to the radical changes currently under way in the airline market. On its intercontinental services, SWISS will continue to offer its tried-and-trusted premium quality in all three classes of travel. And on its European services, customers will in future be able to choose from a broad range of price and product options. The parameters of the new business plan, on which work has been under way since May in collaboration with a management consultancy firm, have already been approved by the Board of Directors.

##### **1.2 Other events and developments in the first six months**

SWISS launched its new frequent flyer programme – the Swiss TravelClub – on 1 January. 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 1 March.

The company also reorganised its charter business for the 2003 summer schedules. The three new Airbus A320s, which are due to join the aircraft fleet in 2003 and 2004, will now operate under the Swiss Sun brand. The aircraft have been specially configured for charter operations and – as attractive innovations – feature Sony PlayStations and an external camera mounted under the fuselage, which allows our passengers to observe the take-off and landing.

## **Swiss International Air Lines Ltd., Basle**

SWISS extended its presence to six continents – Europe, Africa, Asia, North and South America and Australia – in spring 2003. The new Australian service is the result of a codeshare agreement with Japan Air Lines and Qantas. SWISS also concluded a cooperation agreement with Finnair.

On the personnel front, 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.

SWISS informed its shareholders about its results for the 2002 business year at its Annual General Meeting on 6 May. The shareholders approved all the Board's recommendations – including a reduction of the company's share capital – by a sizeable majority. 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 company's "Swiss Europe Savers" programme, which offers online booking of flights at particularly attractive low 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.

Following the agreement with the unions of the ground personnel and the cabin crews, SWISS was able to reach an out-of-court agreement with the executive committee of the SWISS Pilots (SPA), the union of the former Crossair Pilots, on 15 July. SPA followed its executive committee in a vote on August 8 and thereby fulfilled an important prerequisite for a successful implementation of the new business plan and the restructuring programme. The corporate restructuring, which was approved by the Board of Directors on 23 June can only be implemented provided all the company's personnel and unions commit clearly to its content and objectives. The agreement found with SPA offers benefits to both parties involved (see note 11 "subsequent events"). 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. The restructuring programme does not incur any costs or benefits for the first six months of 2003.

SWISS took delivery of its first Airbus A340-300 aircraft on the last day of June, kicking off the renewal of its long-haul fleet. A total of seven of the new four-engined transports will be delivered by the end of the year, gradually replacing the Boeing MD-11s currently in service, which are now over ten years old. SWISS has also concluded a binding memorandum of understanding with Airbus Industrie covering the financing of the new transports. The first aircraft's delivery followed extensive negotiations which have resulted in a revised aircraft order.

Discussions were also held with Embraer on modifications to the size of fleet 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.

## Swiss International Air Lines Ltd., Basle

### 2. Aircraft fleet (as of 30 June 2003)

	Seating capacity	Owned	On finance lease	On operating lease	Leased out	Total operated by SWISS
Saab SF-340	33	11	0	3	-11	3
Saab SF-2000	50	14	9	3	-1	25
Embraer ERJ-145	49	0	21	4	-2	23
Avro RJ-85	82	2	2	0	0	4
Avro RJ-100	97	2	13	0	0	15
MD-82/83	156	0	0	8	-1	7
Airbus A320 Family	110-186	0	15	12	0	27
Airbus A330-200	196-230	0	2	11	0	13
McDonnell Douglas MD-11	241	0	0	12	0	12
Airbus A340-300	228	0	1	0	0	1
<b>Total</b>		<b>29</b>	<b>63</b>	<b>53</b>	<b>-15</b>	<b>130</b>

During the first semester 2003 three Saab 2000 have been phased out, two MD-82/83 and one MD-11 have been returned to the lessor. On 30 June 2003, the first Airbus A340-300 was delivered and added to the fleet.

### 3. Shareholders' equity

Share capital and share premium	Number of shares in '000	Share capital in millions of CHF
As of 1 January 2003	52'536'680	2'627
Capital Reduction as of 6 May 2003	0	-946
As of 30 June 2003	52'536'680	1'681

The nominal value of each share was reduced from CHF 50 to CHF 32 based on the decision of the general shareholders meeting in May 2003.

### 4. Dividends

No dividends were paid out in 2003.

### 5. Operating leases

As of 30 June 2003 and 31 December 2002 total future minimum operating lease payments were as follows:

in millions of CHF	30 June 2003	31 December 2002
maturing within 12 months	198	249
maturing within 1 - 5 years	501	674
maturing after 5 years	285	388
<b>Total</b>	<b>984</b>	<b>1'311</b>

## Swiss International Air Lines Ltd., Basle

The operating lease liabilities relate mainly to operating lease contracts for aircraft (CHF 731 million as at 30 June 2003). The decrease in the future minimum operating lease payments compared to 31 December 2002 results from the termination of four A330 of which two will be phased-out in December 2003 and another two in February 2004.

As of 30 June 2003 SWISS had operating lease agreements for 53 aircraft. Lease terms have been agreed for periods between 12 months and 10 years. Some lease agreements allow for early termination in general and some as a result of a reduction of the total number of aircraft of a certain aircraft type in the SWISS fleet. Others have a buy out option before lease expiry. The lease period of one aircraft cannot be terminated before lease expiry. The above schedule includes early termination dates in accordance with the fleet planning.

Apart from aircraft, operating lease agreements concern mainly leased buildings.

### 6. Capital commitments

As of 30 June 2003 and 31 December 2002, respectively, the Group had capital commitments as follows:

in millions of CHF	30 June 2003	31 December 2002
Capital commitments regarding aircraft fleet	2,049	3,153
Capital commitments regarding property, plant and equipment including intangible assets	26	59
<b>Total</b>	<b>2,075</b>	<b>3,212</b>

### 7. Contingencies/Contingent liabilities

in millions of CHF	30 June 2003	31 December 2002
Swiss Travel Club mileage programme	none	pro memoria
Joint and several liability for VAT payments	none	pro memoria

The former Qualifyer Programme with joint liability for each party was split up into different programmes as of 1 January 2003 and all members (customers) were allocated to their preferred programme. As of 30 June 2003 no joint liability exist anymore.

### 8. Legal matters pending

Compared to the information given at 31 December 2002 no major changes have arised (subsequent events have occurred – please see note 11).

## Swiss International Air Lines Ltd., Basle

### 9. Pledged Assets

in millions of CHF	30 June 2003	31 December 2002
Cash and cash equivalents	66	34
Other receivables third parties	84	34
Owned aircraft	60	143
Leased aircraft	1'437	1'370
Leased spare engines	11	12
Leased other equipment	23	24
Advance payments for aircraft fleet	327	328
Property	189	167
Property under construction	12	12
Loans to third parties	71	72
Cash deposits	136	92
<b>Total</b>	<b>2'416</b>	<b>2'288</b>

Credit facilities used in the amount of CHF 52 million for guarantees, letter of credits and derivatives are partly secured by cash and cash equivalents with the amount of CHF 66 million.

Other receivables include frozen assets due to legal cases, especially in France. The leased assets secure the related lease obligations.

The Company is a concessionaire of various buildings of the EuroAirport Basel-Mulhouse-Freiburg. The respective agreements normally extend to 50 years from the construction of the building, granting the Company a right similar to a finance, in certain cases to an operating lease. To the extent that the Company has prefinanced the construction costs, they form a part of the total lease payments. Upon termination of the concession, the Company does not retain any rights or claims against the lessor. SWISS is not allowed to sell such properties and properties under construction with a total carrying amount of CHF 201 million.

Loans to third parties in the amount of CHF 71 million represent collaterals and deposits for aircraft finance lease contracts.

Cash deposits relate mainly to maintenance of aircraft held under operating leases and cash fuel deposits.

### 10. Business Risk and going concern

These consolidated interim financial statements were prepared on a going concern basis, which the Company's board of Directors believes to be appropriate.

In view of the continuing difficulties facing the international airline industry, and with the aim to restore profitability of the Group in the medium term range, the Board of Directors, following its meeting of 23 June 2003, has announced a substantial restructuring programme (see below).

The Board believes that the successful implementation of the key elements of the plan, including obtaining additional financing of up to CHF 500 million will secure the Group's ability to continue as a going concern in the foreseeable future. The group's liquidity and the financial position, however, might be exposed to further unpredictable events being beyond group's control, requiring further restructuring and/or financing. In this case the group's liquidity position, and possibly its going concern ability, might be seriously affected.

## Swiss International Air Lines Ltd., Basle

### 11. Subsequent Events

SWISS announced on 24 June 2003 a substantial restructuring programme comprising

- a reduction of head count of approximately 3000 full time equivalents
- a reduction of its aircraft fleet of up to 34 aircraft, combined with a reduction of destinations served.
- obtaining new credit line of CHF 500 million

A new business plan reflecting the above measures has been established. Completion of the restructuring is expected with the beginning of the winter schedule 2003.

Although the plan has been announced prior to the 30 June 2003, there were not sufficient details with respect to restructuring costs and possible impairments effects available to reasonably estimate the costs connected therewith. Therefore no provisions for restructuring and no impairment losses have been considered in the interim consolidated financial statements. It is expected that such costs and losses will sum up to approximately CHF 200 million depending on the outcome of negotiations with all the parties concerned. The non-recurring costs have been budgeted at around CHF 200 million. The 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.

As mentioned, these figures are not posted and therefore not included in the presented figures as of 30 June 2003.

In July/August SWISS has reached agreements with all of its major unions on the terms and procedures for the implementation of the business plan and the subsequent reduction of the personnel numbers.

SWISS has been conducting negotiations with **Kapers and Unia**, its cabin crew associations, since it announced its corporate resizing, to seek the most partnerly and socially-acceptable solutions possible for effecting the required staff reductions. As early as mid July 2003 SWISS has reached agreements with Kapers and Unia on the terms and procedures for reducing personnel numbers. Some 935 cabin crew positions are affected by the corporate resizing which is currently under way. The Geneva and Lugano crew bases are to be closed, and crew numbers will also be reduced in Basel. The crew bases in Bangkok, Delhi and Mumbai will be closed. The Tokyo crew base will be retained, but with reduced staff numbers. Negotiations will now continue with the cabin staff associations with a view to achieving further cost reductions without additional layoffs.

Negotiations with ground staff were successfully concluded in the first week of August. SWISS and the **GATA, KV Schweiz, Push** and **VPOD** ground staff unions have agreed on the contribution of the ground staff unions to the airline's economic measures. The essential part of this contribution comes through flexibility of individual working hours, as well as reductions in other personnel costs. There was no agreement on a general reduction in salaries. All potential legal disputes in connection with the mass dismissals have been settled. In return, SWISS has prolonged the existing social plan by twelve months to 31.12.2004. An improvement in the social plan arrangements for older and long-serving employees has also been finalised.

SWISS and the **SWISS PILOTS union (SPA)** have set aside their differences and agreed on an amiable out of Court settlement. In an agreement signed by both sides, the SPA waives rights to the implementation of the Arbitration Court ruling and withdraws from all outstanding legal proceedings. In addition, the SPA accepts the dismissal of 559 of its pilots. SWISS in return, agrees to make a one-time payment to all pilots declared redundant. The three charter aircraft will, in future, be operated by the former Crossair pilots (OC 1). SWISS also withdraws its plans for the legal establishment of its subsidiary SWISS Express. In a constructive atmosphere, **Aeropers** (the union of the former Swissair pilots) and SWISS agreed on the measures and the implementation of the restructuring programme. These include, amongst others, an innovative part-time model. Aeropers, which was not involved in the Arbitration Court proceedings, was able to reconcile itself with the effects of the SPA agreement.

Agreement with the two pilots' unions is an exceptionally important prerequisite if the previously announced SWISS restructuring programme is to be achieved.

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Discussions have also taken place with the five largest suppliers (i. e. Unique, Swissport, SR Technics, Gate Gourmet and Cargologic) on questions of volume and cost reductions and are continuing in a promising manner. In the workshops the new contractual conditions are being negotiated. These negotiations are of essential importance in the attempt to put SWISS on a stable foundation, also in terms of its production cost.