

To the creditors and the debt
restructuring judge of SAirGroup

Küsnacht, 11 November 2002
Wü/cb

Ladies and Gentlemen

Dear Judge

Administrator's interim report

A further interim report of my activities is given below. This report concerns the progress of debt the restructuring proceedings since the creditors' meeting on 26 June 2002.

1. GENERAL

1.1 Composition of Creditors' Committee

Following the creditors' meeting of 26 June 2002, three creditors lodged an appeal with the district court (*Bezirksgericht*) of Zurich against the election of the Creditors' Committee. They contended that the Committee, as elected by the creditors' meeting, did not appropriately represent the foreign banks and leasing companies. They applied to the supervisory authority for an order to rectify this state of affairs.

The Zurich district court complied with the complainants' arguments in its ruling of 10 September 2002. It concluded that the interests of the

foreign financial institutions (banks and leasing companies) were not adequately represented in the Creditors' Committee elected by the creditors' meeting. It was therefore ordered that the Creditors' Committee be expanded from seven to eight members. At the same time, Dr. Adriano Viganò, attorney-at-law, was appointed as the eighth member of the Creditors' Committee.

The Creditors' Committee thus now comprises the following eight members: Dr. Michael Werder, Dr. Max C. Roesle, Dr. Peter Mathys, Jürg Zimmermann, Dr. Andreas Ritter, Bruno Frick, Dr. Werner Meier and Dr. Adriano Viganò.

1.2 Status of voting on the debt restructuring agreement

Since the decision of the district court of Zurich regarding the expansion of the Creditors' Committee, I have received declarations of assent from a number of different foreign financial institutions. As at the time of writing, more than 80% of the creditors have approved the proposed debt restructuring agreement. Investigations are still ongoing into whether or not sufficient approval has been granted in terms of the sum of claims that carry voting rights. In respect of the claims that are recognised by the company, the proportion of those which have voted in favour is over 80%. If the claims that are disputed by the company are also taken into account, however, the legal quorum is not reached. Consequently, I am currently assessing the right to vote attached to each individual claim. These assessments require the examination of complex circumstances. Only when this process has been completed, will I be able to announce the result of the ballot process.

In connection with the ballot, I should like at this point to draw your attention to the fact that creditors who have not yet agreed to the debt restructuring agreement may still do so up to the date of the court hearing on the ratification of the debt restructuring agreement. Declarations of assent may be submitted to me.

1.3 Registration of claims by staff of Swissair Swiss Air Transport Company Ltd

In a letter dated 6 September 2002, the legal representative of the Swissair pilots registered additional privileged claims with SAirGroup on behalf of approximately 1,100 pilots. These privileged claims amount to some CHF 1.35 billion. The pilots had previously lodged the same claims against their employer, Swissair. The pilots are claiming five years' salary plus an additional year's pay as a severance settlement, claims for children's allowance and social insurance contributions (also for five years) and losses arising from shareholdings. To date, they have not set off against these claims the salary received from their employment by Swiss International Air Lines Ltd (referred to below as "Swiss") or by another employer. The pilots are claiming that the Swissair Group should be treated as a single employer, which is why their claims can be lodged against all companies under debt restructuring moratorium. Other Swissair employees have followed the pilots' example and have also registered their privileged claims with all of the companies under debt restructuring moratorium.

If these additional privileged claims against SAirGroup were to be admitted, it would be impossible to secure them at present because available liquid funds are insufficient. The conclusion of the liquidation agreement would thus be jeopardised.

On 17 October 2002, I submitted a proposal to the employees' associations concerning the settlement of the privileged claims against Swissair. The guiding principle of this proposal is that the former members of staff should not be placed in a better position by the compulsory winding-up or liquidation of Swissair than they would have been in had the company been rescued through financial restructuring. Under the terms of the proposal, the privileged claims lodged by staff not employed by Swiss would be recognised as follows: Salary during the notice period less any salary earned from a new job, contractual severance pay or claims as per a severance plan, plus other contractually owed claims until the end of the notice period. Those employees who have moved to Swiss would be treated as though their employment relationship with Swissair had been continued. At Swiss, these staff generally perform the same work at the same workplace. Under the terms

of the proposal, the privileged claims made by these staff would be recognised as follows: Any difference in salary between the old employment contract with Swissair and the new employment contract with Swiss for the duration of the notice period provided for in the employment contract with Swissair, plus any other contractual claims owed until the date of transfer to Swiss. No severance pay or claims under a severance package would be recognised. Privileged salary claims would be paid out within 60 days of the entry into force of the debt restructuring agreement. The employees would waive any further privileged claims against all companies within the Swissair Group, specifically those against SAirGroup. My proposal is subject to the conclusion of a debt restructuring agreement for Swissair. This in turn is conditional upon the agreement of the majority of employees to my proposal, the support of a qualified majority of all creditors for the debt restructuring agreement and the latter's ratification by the debt restructuring judge.

The proposal is supported by the employees' associations. Each Swissair employee will receive a written offer for the settlement of his or her registered privileged claims by the end of November 2002. Should the employees accept the offer in sufficient numbers, the situation would be solved for SAirGroup with regard to the newly registered privileged claims.

2. SALE OF ASSETS

2.1 Individual businesses

- *Nuance Group*: The sale of the Nuance Group was completed on 31 July 2002. All of the SAirGroup claims against companies in the Nuance Group were paid as a result of the sale. SAirGroup received a total of CHF 181,436,160.90. As a shareholder in the Nuance Group, SAirLines received its claim of CHF 27,281,057.30, in addition to a portion of the purchase price of the shares of CHF 113,643,838. CHF 80 million was paid into an escrow account. This sum serves as collateral for any subsequent adjustments of the purchase price and guarantees in favour of the purchaser under the terms of the contract of sale. The parties will have to arrange final settlement through this escrow account at some point in the future.

CHF 10 million of the purchase price had to be put aside for bonus payments to more than 50 middle management employees of the Nuance Group. The commitment to pay out a bonus to members of middle management in connection with the sale of the Nuance Group was entered into without the involvement of the Administrator of SAirGroup and SAirLines before the SAirGroup debt restructuring moratorium commenced in September 2001. The Co-Administrator of SAirLines and I have jointly reviewed the legal situation. The bonus agreements were concluded between The Nuance Group AG – the holding company of the Nuance Group – and the middle management employees. Consequently, the debt restructuring moratorium for SAirGroup and SAirLines does not affect these contractual obligations, which is why they must be fulfilled.

- *Gate Gourmet Group:* After tough, complex and protracted negotiations between the purchaser, the Texas Pacific Group, and the major creditors, all of the parties concerned reached an agreement about the sale of the Gate Gourmet Group at the end of August 2002. The main problem with this sale was the distribution of the sale proceeds of CHF 1,092.5 million among the major creditors – SAirGroup Finance (USA) Inc., SAirGroup Finance (NL) B.V., SAirGroup, SAirLines and Swissair – as well as the banks of the Gate Gourmet Group. These creditors' claims total CHF 1,897 million.

Negotiations are currently in progress with the banks regarding the repayment of claims amounting to CHF 148 million.

The claims of SAirGroup Finance (USA) Inc. of CHF 1,005 million are directed against the US Gate Gourmet companies alone. The position of SAirGroup Finance (USA) Inc. is favoured by the structure of the Gate Gourmet Group, which is organised solely to optimise tax. Indeed, the US business is linked directly to the Swiss business via an American general partnership. Gate Gourmet Switzerland AG and Gate Gourmet IP AG are fully liable partners in this US holding company. As a result, both Swiss companies are also liable for the claims of SAirGroup Finance (USA) Inc. In the light of this fact, SAirGroup Finance (USA) Inc. will receive a payout of CHF 602.5 million on its claim.

The claims of SAirGroup – totalling CHF 555 million – against a number of different companies in the Gate Gourmet Group will be

met with a payment of at least CHF 256 million. Swissair will receive a payment of CHF 4 million against its CHF 12 million claims. The proportion of SAirLines' CHF 29 million claims that the company will actually receive is still the subject of negotiations between SAirGroup and SAirLines. The share will be no higher than CHF 9 million.

The payment to SAirGroup Finance (NL) B.V. on its claims of CHF 148 million will ultimately amount to CHF 73 million.

The reciprocal claims and pending actions between SAirGroup Finance (USA) Inc. and SAirGroup and/or all of the other companies in the Swissair Group were also settled within the framework of negotiations on the distribution of the proceeds from the sale of the Gate Gourmet Group. For its part, SAirGroup declared the subordination of its loan claims of around USD 110 million against SAirGroup Finance (USA) Inc. In return for the subordination, SAirGroup Finance (USA) Inc. will assign its claims against Atraxis America Inc. and SR Technics Palmdale Ltd. – amounting to around USD 30 million – to SAirGroup. At present, the value of these claims is thought to be approximately CHF 10–15 million. Furthermore, SAirGroup Finance (USA) Inc. is withdrawing the USD 26 million suit it has filed in the USA against SR Technics Switzerland, the SR Technics Group and SR Technics Palmdale Ltd. The withdrawal of this suit is very important in particular in connection with the sale of SR Technics Switzerland. As long as the suit is still pending in the USA, security must be provided to any buyer of SR Technics Switzerland for the USD 26 million claim, as no buyer will wish to assume the risk attached to the lawsuit. Finally, SAirGroup Finance (USA) Inc. is waiving all the claims it has previously made against SAirGroup and all the other companies in the Swissair Group. Specifically, it is withdrawing a claim for CHF 990 million that it had registered with SAirGroup.

The debt restructuring judges at the district courts of Zurich and Bülach have since approved the Gate Gourmet deal.

2.2 Outstanding projects

The sales of SR Technics and Avireal are still pending. Negotiations in connection with SR Technics are at an advanced stage. I anticipate that a successful conclusion can be reached in the near future.

3. NEXT STEPS IN THE DEBT RESTRUCTURING MORATORIUM

I am currently drafting the report to the debt restructuring judge. The primary subject of this report is a statement regarding the claims that are disputed by the company. The task here is to assess the extent to which these disputed claims are entitled to vote in the ballot on the debt restructuring agreement.

I will submit the report to the debt restructuring judge as soon as possible. The debt restructuring judge will subsequently set the date for the hearing about the ratification of the debt restructuring agreement. I expect that the decision on whether or not the proposed debt restructuring agreement with the assignment of assets will be concluded, will be made in early 2003.

4. INVESTIGATION INTO RESPONSIBILITY

Ernst & Young AG has made significant progress in its work in connection with the investigation into responsibilities at the Swissair Group. However, production of the report has been delayed somewhat owing to the complexities that have emerged with the individual facts of the case and the great volume of records. The report will probably now be published in January 2003. It is planned that the report and the key findings of the investigation will be presented at a press conference. The creditors will subsequently have the opportunity to inspect the report. You will be informed in good time of the exact procedure.

5. INFORMATION TO CREDITORS

The creditors will continue to receive continuously updated information on proceedings via my website.

Yours sincerely

Administrator

Karl Wüthrich