

To the creditors and the debt
restructuring judge of Swissair Swiss
Air Transport Company Ltd

Küsnacht, 28 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 restructuring proceedings since my last interim report of 16 August 2002.

1. STATUS OF PROCEEDINGS

1.1 Registration of claims

The registration of Swissair claims that have been submitted to date was completed at the beginning of September 2002. Registration had been delayed because employees had resubmitted several thousand increased claims after flight operations ceased on 30 March 2002. A total of around 9600 creditors lodged one or more claims. The creditors are asserting privileged claims of approximately CHF 2.4 billion, as well as third-class claims amounting to around CHF 33.8 billion.

1.2 Settlement proceedings for the privileged claims registered by Swissair employees

Former employees of Swissair have registered privileged claims totalling CHF 2 billion. These include salary claims arising from fixed-long term

employment contracts (five years in the case of the pilots, for example), severance pay and claims from severance packages, compensation for lost anniversary flights and losses arising from shareholdings. To date, most of the employees 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.

On 17 October 2002, I submitted a proposal to the employees' associations concerning the settlement of privileged claims. The guiding principle of this proposal is that the members of staff who were actively working when the provisional debt restructuring moratorium was approved 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. If all of the employees were to accept the offer, the privileged claims of those Swissair staff who were actively working when the provisional debt restructuring moratorium was approved – including the claims relating to social insurance – would be reduced to

around CHF 210 million. My proposal is subject to the conclusion of a debt restructuring agreement for Swissair. This in turn requires the agreement of a sufficient number of staff to my proposal, with the effect that their privileged claims, including social insurance contributions, would amount to less than CHF 230 million. The support of a qualified majority of all creditors for the debt restructuring agreement, and the latter's approval by the debt restructuring judge, are also required.

The proposal is supported by the employees' associations. Each Swissair employee who was working actively at the time the provisional debt restructuring moratorium was approved and who has registered privileged claims will receive a written offer for the settlement of these claims at the beginning of December 2002. The employees then have the opportunity to accept this offer. If they do so in sufficient numbers before 15 December 2002, it will be possible to meet the privileged claims from Swissair's available liquid funds. This would fulfil one of the statutory preconditions for the conclusion of a debt restructuring agreement.

I believe that my proposal is of benefit to all creditors for the following reasons:

- Protracted legal proceedings on the settlement of privileged claims can be avoided.
- Those employees who accept the offer will have their recognised privileged claims paid out swiftly.
- Third-class claims will be assured of a minimum dividend.
- Liquidation will be made possible. This will produce a greater return on the realisation of Swissair assets, particularly those abroad.

1.3 Inventory of assets

Considerable progress has been made on the production of an inventory of Swissair assets. Irregularities discovered in connection with the way in which the 1997 restructuring of the Swissair Group was conducted caused an unforeseen delay, however. At that time, the company name of the "old" Swissair was changed to SAirGroup and a "new" Swissair

Swiss Air Transport Company Ltd was founded. The assets required for flight operations were transferred from the "old" Swissair to the "new" Swissair as a non-cash capital contribution. The restructuring was not completed properly in the accounts. A variety of assets (in particular real estate outside Switzerland) that have been included in the balance sheet of the "new" Swissair since restructuring have never actually been legally transferred into its possession. It is very likely that the properties in question therefore belong to SAirGroup (the "old" Swissair). The circumstances are still under investigation.

2. SALE OF ASSETS

2.1 Gate Gourmet

After difficult 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 strictly tax-optimised structure of the Gate Gourmet Group. 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 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 North America 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 AG and SR Technics Palmdale Inc. 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 Furnishings, vehicles, office fittings, IT equipment and inflight materials

In recent months, considerable progress has been made with the liquidation of Swissair's vehicles, office fittings and IT equipment around the world. It has been possible to sell these assets at good prices. Each of the individual transactions was authorised by the debt restructuring judge.

The liquidator, Kurt Hoss, has been holding the sale of inflight materials, alcoholic beverages and cosmetics at Grindelstrasse 9 in CH-8303 Bassersdorf since 17 October 2002. The liquidation is still ongoing. Items for sale included 720,000 Hutschenreuther porcelain plates in various sizes, 260,000 red and white wine glasses, 360,000 pieces of silvered First Class cutlery, 75,000 First Class sleeping bags and woollen blankets, 160,000 bottles of red and white wine (airline size) and 360,000 First Class "amenity kits" (overnight sets with a toothbrush, hairbrush, personal care products, etc.). The inflight materials on sale – most of which were destined for First and Business Class passengers – were 90% new. To date, the liquidation has yielded more than CHF 2.5 million, although the sale costs are still to be deducted from this figure. Office furnishings and IT equipment will be sold in due course.

The liquidation sale is the product of many months of extremely complex logistical activity. First of all, the Swissair liquidation team had to view the materials stored in Switzerland. It also had to organise and monitor the repatriation of materials from international bases such as Atlanta, San Francisco and Tokyo. In total, around 1'800 palettes carrying approximately 300 tonnes of material have been returned to Switzerland. The second phase for the team was to sort through the material, record it and move it to new storage premises. Historically significant items have been loaned to several museums (the Museum of Transport and Communication in Lucerne, the Aviation Museum in Dübendorf and the Museum of Design in Zurich). The goods were then prepared for the sale by the liquidator, Kurt Hoss.

3. NEXT STEPS IN THE DEBT RESTRUCTURING MORATORIUM

The authorised debt restructuring moratorium expires on 5 December 2002. The process that is planned cannot be completed within this period. I will therefore be submitting an application to the debt restructuring judge to have the debt restructuring moratorium extended by four months up to 4 April 2003.

The next steps in the debt restructuring proceedings are planned as follows:

- Dispatch of invitation to the meeting of creditors: 20 December 2002
- Meeting of creditors: Early February 2003
- Ballot on debt restructuring agreement: February/March 2003
- Report of the Administrator March 2003
- Start of company liquidation proceedings End-May 2003

Debt restructuring proceedings will have to be discontinued if an insufficient number of Swissair employees have accepted the settlement offer for the registered privileged claims by the deadline of 15 December 2002. Should this be the case, there are plans to ensure that compulsory winding-up proceedings for Swissair can begin no later than early January 2003. This approach should also make it possible for the first meeting of creditors to be held in early February 2003.

4. INFORMATION TO CREDITORS

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

Yours sincerely

Administrator

Karl Wüthrich