

Notice from the administrator of the Swissair Group to creditors and the media

Investigation into the accountability of the governing and executive bodies of SAirGroup: Findings and initial conclusions – Report can be ordered from Administrator

Küsnacht-Zurich, 24 January 2003. The final version of the report into the accountability of the governing and executive bodies of SAirGroup was published a few days ago. It has been drawn up by the consultancy firm Ernst & Young AG at the instigation of the Administrator of the Swissair Group, Karl Wüthrich of Wenger Plattner. The full report comprises a final report of around 530 pages and a detailed report of approximately 2,800 pages. Creditors may order both reports through the Administrator using a special form and a charge will be made to cover costs. The form can be found on the www.sachwalter-swissair.ch website. Dispatch will begin in early February 2003.

After a brief initial read-through, the Administrator had the following comments on the reports:

Background: From the special audit to the accountability investigation

At the last Annual General Meeting of SAirGroup on 25 April 2001, the company's shareholders decided that a special audit should be held. The competent judge appointed the consultancy firm Ernst & Young AG as special auditor. By the time SAirGroup was granted a provisional debt restructuring moratorium on 5 October 2001, the special auditor had completed around half of the necessary work.

The grant of this provisional debt restructuring moratorium radically changed the company's circumstances, which also affected the special audit, which confined itself to answering approximately 150 questions that shareholders' representatives had submitted following the Annual General Meeting. This list of questions, which could not subsequently be amended for legal reasons, was drawn up without any detailed knowledge of internal Swissair affairs and related only to the time prior to mid-April 2001. The special audit did not cover the period from mid-April 2001 up to the start of the provisional debt restructuring moratorium.

In November 2001, the (provisional) Administrator, Karl Wüthrich, stated clearly to the shareholders, who had instituted the special audit, and to the Swiss parliament, which was to approve a loan, that the liquidation bodies involved in the SAirGroup debt restructuring proceedings were under a legal obligation to look into who bore responsibility for the collapse of the company. Unlike special auditors, liquidation bodies have access to all business records.

They are therefore able to have specific circumstances of relevance to legal responsibility investigated. On the basis of the investigation's findings, the liquidation bodies and the creditors could then decide together against whom accountability claims might be made. In summary, the (provisional) Administrator stated that the investigation into the accountability of governing and executive bodies would be more comprehensive and efficient than a special audit, and it could be completed within a much shorter time.

The debt restructuring judge in Zurich agreed with the arguments of the (provisional) Administrator and, in a ruling of 3 December 2001, issued him with the authority to instigate the accountability investigation. The Administrator, in consultation with the federal government and the canton of Zurich, then awarded the corresponding mandate to the consultancy firm Ernst & Young AG. The special audit application was subsequently withdrawn by the shareholders' representatives.

Object of investigation – Interim report to Meeting of Creditors in June 2002

The Ernst & Young investigation concentrated on analysing the "Hunter" strategy, the information given by the Board of Directors at the 2001 Annual General Meeting, the annual financial statements for 1999 and 2000, corporate governance, payment flows in 2001 and the circumstances that led to the cessation of flight operations on 2 October 2001.

At the Meeting of Creditors of SAirGroup on 26 June 2002, the Administrator referred to three problem areas (consolidation, portage and equity swap) that were under investigation at that time.

Focus on selected facts

It is virtually impossible to present a concise summary of the report published by Ernst & Young AG a few days ago. The enclosed memorandum from Ernst & Young sets out some selected facts that are of particular interest. It responds to the following questions:

- Hunter strategy: How was the Hunter strategy developed, and what was its content? How was the Hunter strategy implemented?
- Financing: How were the Swissair Group's finances structured? How was the acquisition of shareholdings in other companies funded?
- Financial reporting: Did the consolidated and individual financial statements of SAirGroup in 1999 and 2000 present a true picture of the Swissair Group's financial circumstances? Were the conditions for producing financial statements under the going concern principle met at the end of 1999 and 2000?
- Cessation of flight operations on 2 October 2001: What events led to the cessation of flight operations on 2 October 2001?
- Corporate governance: What corporate governance guidelines existed? How was corporate governance implemented?

The memorandum is attached to permit a better understanding of the chronology of events from 1996 to 2001, also drawn up by Ernst & Young.

Next steps: No decisions until 2nd half of 2003 at the earliest

The Administrator and his team will now study the Ernst & Young report in detail. Facts relevant to the enforcement of any accountability claims will then be identified and examined from a legal viewpoint. Ultimately, the appropriate liquidation or winding-up bodies will have to decide what further action should be taken. It will not be possible to take this decision until the second half of 2003 at the earliest.

Enclosed:

- Memorandum: Finding of Ernst & Young into the Swissair case (enclosure 1)
- Chronology of events 1996 - 2001 (enclosure 2)

Further information

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