

**SAIRGROUP IN DEBT RESTRUCTURING
LIQUIDATION**

CIRCULAR NO. 2

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To the creditors of SAirGroup,
in debt restructuring liquidation

Küsnacht, June 2004 Wü/cb

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SAirGroup in debt restructuring liquidation; Circular no. 2

Ladies and Gentlemen

This Circular provides information on the status of the SAirGroup debt restructuring proceedings up until 31 December 2003, as well as on the next steps planned in the debt restructuring liquidation process over the coming months.

1. REPORT ON ACTIVITIES AS OF 31 DECEMBER 2003

Although at the end of December 2003 it had still not been a year since the debt restructuring liquidation began on 26 June 2003, the Liquidator has produced a report on his activities pursuant to Art. 330 of the Swiss Debt Enforcement and Bankruptcy Law (DEBL) as of 31 December 2003. Once it had been reviewed and approved by the Creditors' Committee, the Liquidator submitted this report on his activities on 16 June 2004 to the debt restructuring judge at the district court (*Bezirksgericht*) of Zurich. The report on his activities will be available for inspection by creditors at the Liquidator's offices at Seestrasse 39, Goldbach-Center, 8700 Küsnacht until 23 July 2004, provided that they make an appointment in advance with Ch. Rysler, telephone +41 43 222 38 00.

The following is a summary of the content of the report on my activities.

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2. OVERVIEW OF THE LIQUIDATION PROCESS

2.1 Activities of the Liquidator

By the end of December 2003, the Liquidator had prepared and conducted the realisation of assets. Specific tasks to be mentioned in this context are the preparations for the realisation of the various real estate properties located in Switzerland and abroad. The ownership status of the real estate properties abroad is not clear. When the Swissair Group underwent restructuring in spring 1997, the "old Swissair" changed its name to SAirGroup. At the same time, the "new Swissair" was established as Swissair Swiss Air Transport Company Ltd ("Swissair"). The establishment of the new company and the transfer of assets from SAirGroup to Swissair gave rise to unclear legal relationships. Although it has so far not proved possible to find any relevant contractual agreements, for accounting purposes the foreign properties were transferred from SAirGroup to Swissair. Swissair used these properties from spring 1997 until flight operations ceased at the end of March 2002. The issue now is to clarify the ownership status of the properties abroad in relation to Swissair and SAirGroup. In this connection, Swissair's interests are being pursued by its Deputy Liquidator, Dr. Niklaus Müller.

Negotiations were also conducted with the creditors of Flightlease Holdings (Guernsey) Ltd. and its subsidiaries, as well as with Flightlease (Ireland) Ltd., regarding the instigation of proper liquidation proceedings for these companies. These negotiations involved finding means of dissolving complicated leasing structures, and although long and drawn-out, they have since been concluded successfully. Agreements on the liquidation of the Flightlease Guernsey group and Flightlease (Ireland) Ltd. were reached with the creditors of these companies without initiating bankruptcy proceedings. The claims of around USD 128 million registered by SAirGroup against Flightlease Holdings (Guernsey) Ltd. are acknowledged by the company and the creditors concerned.

Working closely with the Creditors' Committee, the Liquidator has instituted measures to clarify potential responsibility and Pauliana claims. In particular, measures have been taken to interrupt the statute of limitations.

Pauliana claims against Swiss and foreign KPMG companies were examined in detail. In the spring and summer of 2001, SAirGroup consulted

various Swiss and foreign (UK) KPMG companies for advice on financial and liquidity planning and on the auditing of its semi-annual balance sheet per 30 June 2001. On 25 and 27 September 2001, i.e. shortly before the request for granting of a provisional debt restructuring moratorium was submitted on 4 October 2001, these KPMG companies made SAirGroup pay invoices relating to their consultancy mandates involving a total of around CHF 46 million. The consultancy services provided by the KPMG companies in question had given them an extensive insight into SAirGroup's hopeless financial position at the end of September 2001 and they must therefore have realised that these payments would mean that they would be securing preferential treatment to the detriment of the other creditors whose claims SAirGroup did not settle before the debt restructuring moratorium. In the judgment of a Swiss attorney consulted on the matter, the KPMG companies in question are under an obligation to refund the payments received on 25 and 27 September 2001 in particular under Art. 288 of the Swiss Debt Enforcement and Bankruptcy Law (DEBL). With the consent of the Creditors' Committee, at the beginning of March 2004 SAirGroup filed a Pauliana action against KPMG LLP, London, KPMG Audit Plc., London, and KPMG Klynveld Peat Marwick Goerderler SA, Zurich with the Commercial Court of Zurich in respect of a total some of approximately CHF 46 million.

The Liquidator has also begun to draw up the schedule of claims with a view to settling liabilities. The claims of roughly 15,600 creditors need to be assessed. Some of the registered claims are based on complex legal arrangements and will take quite some time to process.

2.2 Activities of the Creditors' Committee

The Creditors' Committee held a total of five meetings up until the end of December 2003. In constituting itself, the Committee elected Dr. Michael Werder as its Chairman and Bruno Frick as its Deputy Chairman. To enable various issues to be addressed more efficiently, the Creditors' Committee also formed subcommittees.

At its meetings, the Creditors' Committee discussed the various requests submitted by the Liquidator and passed resolutions accordingly. At a special meeting, the Creditors' Committee discussed and determined, together with the Liquidator, how to proceed with regard to the clarification of the responsibility claims. The Creditors' Committee paid particular attention to

the clarifications relating to the Pauliana claims against KPMG and the processing of the relevant lawsuit.

3. REALISATION OF ASSETS

3.1 General

Up until the end of December 2003, the Liquidator had pressed ahead with the collection of outstanding accounts receivable in Switzerland and abroad. The most important activities undertaken to liquidate assets are reported in the following.

3.2 Sale of three Fokker 100 aircraft

At the time of the provisional debt restructuring moratorium on 5 October 2001, SAirGroup was entered in the French Civil Aircraft Register as the owner of three Fokker 100 aircraft. Since being acquired by SAirGroup in summer 2001, the three Fokker had been parked and immobilised without maintenance at Orly Airport in Paris. Two aircraft exhibited major defects (engine damage and accident-related damage). For parking fees and maintenance of the three aircraft it was necessary to budget for monthly costs in excess of EUR 15,000. In February 2002, Flightlease AG was therefore instructed to sell the three Fokker 100. Owing to an oversupply situation in evidence for some years, it was difficult to find a buyer for SAirGroup's three Fokker 100. In the summer of 2003, after tough negotiations, it finally proved possible to conclude an agreement with Air Group Finance, a company headquartered in Shannon, Ireland, for the purchase of the three Fokker 100 for a total price of USD 6,350,000. The Creditors' Committee agreed to this transaction. All the aircraft have since been transferred to the purchaser and paid for.

3.3 Sale of independent and permanent rights of building at "number 11 Chemin de la Violette, Meyrin", plot no. 11851 (crew accommodation "Foyer des Equipages")

The Foyer des Equipages is in the immediate vicinity of Geneva's Cointrin international airport. It is a hotel of the simpler category, but is nonetheless highly functional in structure. The building was erected under right of building agreements by the "old Swissair" (now SAirGroup in debt restructuring liquidation) between 1965 and 1967. Between 1983 and 1985,

the building was extended and underwent complete renovation. The property has since been well maintained and is currently in good condition. As of May 2002, real estate experts from Ernst & Young AG estimated the market value of the property at CHF 6.3 million. Several offers for the purchase of the Foyer des Equipages were received in autumn 2002. In an auction held among the prospective buyers, an offer of CHF 9 million submitted by Nash Holding SA, Geneva, emerged as the highest bid. In autumn 2003, a publicly notarised purchase contract specifying a purchase price of CHF 9 million was concluded with Nash-Airport SA, Geneva, a subsidiary of Nash Holding SA. The Creditors' Committee agreed to the sale of the Foyer des Equipages and the transaction has since been completed.

3.4 Dissolution of a leasing structure relating to four Swissair and two Sabena Airbus flight simulators

Under sale and lease back transactions, at the end of 2000, Swissair and Sabena sold and leased back a number of Airbus flight simulators which they owned (four in the case of Swissair and two in the case of Sabena). Swissair subleased its four Airbus flight simulators to Swissair Training Center Ltd. The transactions are based on complex contractual agreements comprising a large number of different contracts involving the participation of US investors and a banking consortium. To secure the claims of the US investors and the banking consortium, SAirGroup, Swissair and Sabena provided different kinds of collateral, including a right of lien over the flight simulators and a bank guarantee from UBS AG. SAirGroup also provided a guarantee in favour of the US investors and the banking consortium. In the insolvency proceedings of SAirGroup, based on SAirGroup's guarantee, net claims of around USD 64 million arising from the leasing transactions were registered after deduction of realised collateral. After intensive negotiations, the parties reached the following agreement for the dissolution of the leasing transactions relating to the Swissair and Sabena flight simulators and for the settlement of the reciprocal claims arising from these transactions: the US investors and the banking consortium waive the right to pursue claims against Swissair, SAirGroup and SAirLines (claims arising from the leasing transactions also having been registered against the latter under the heading of "corporate liability"). In return, Swissair and SAirGroup waive any rights arising from the leasing transactions, in particular in relation to a contested claim to a possible surplus of around USD 6 million from one of the

collaterals provided which would be difficult to recover. The agreement was approved by the Creditors' Committees of Swissair and SAirGroup and has since been completed.

4. ASSET STATUS OF SAIRGROUP AS OF 31 DECEMBER 2003

4.1 Introductory remark

In the Appendix, you will find a report on the liquidation status of SAirGroup as of 31 December 2003 containing a statement of the current known assets of SAirGroup in debt restructuring liquidation as of 31 December 2003.

4.2 Assets

Open apportionment of proceeds from the sale of Swissport, Restorama, RailGourmet and Nuance: in a number of areas relating to the sale of the Swissport Group, the Nuance-Group, Restorama AG and the RailGourmet Group as part of the debt restructuring moratorium, agreements have still not yet been reached on how to distribute the proceeds of the sales between SAirGroup, SAirLines, Swissair and SAirGroup Finance (NL) BV. To secure the various claims, parts of the proceeds have been deposited in escrow accounts.

Open apportionment of costs incurred during the debt restructuring moratorium among Swissair, SAirLines, T Group und SAir Services Invest AG: during the debt restructuring moratorium, SAirGroup bore the cost of services which also benefited other Swissair Group companies. These costs have yet to be apportioned.

As-yet unrealised assets: the assets that have not been realised consist, in the main, of claims against former companies of the Swissair Group, share positions held by SAirGroup, residual IT equipment and office furnishings, Swiss and foreign real estate, where owned by SAirGroup (see section 2.1 above), and participations in affiliated companies and securities. Moreover, intangible assets, such as the "Swissair" brand name, and any responsibility and appeal claims are carried pro memoria.

4.3 Debts of the estate

The accounts payable reported as of 31 December 2003 relate to costs incurred during the debt restructuring moratorium and the debt restructuring liquidation.

4.4 Creditors' claims

The process of assessing claims in the context of drawing up the schedule of claims has not yet been completed (see section 5 below). The liquidation status report as of 31 December 2003 therefore states the sum of the claims filed by the creditors in each class, as well as whether or not these claims have been accepted or contested by SAirGroup. It should be noted in this connection that, in deciding whether to recognise or reject claims, the liquidation bodies are not bound to SAirGroup's assessment of the registered claims. The following remarks should be made regarding the first and third-class claims:

First-class claims (former Swissair employees): claims of former Swissair employees totalling CHF 93,466,560 are still registered with SAirGroup as well. It will be possible to satisfy all privileged claims in full from the debt restructuring liquidation of Swissair assets, so SAirGroup is no longer exposed to any risk that payments will have to be made to former Swissair employees.

Third-class claims: the registered claims of around CHF 50 billion include duplicate registrations amounting to more than CHF 10 billion and roughly CHF 11 billion from the Sabena/Belgian government complex. The claims from Belgium are the subject of appeal proceedings before the Cow d'appel in Brussels.

4.5 Estimated dividend

No reliable estimate of the probable dividend for holders of third-class claims can be made until the registered claims have been assessed by the liquidation bodies as part of the process of drawing up of the schedule of claims. The range lies between 2.5% and 15.7%, however.

5. NEXT STEPS IN THE PROCESS

To settle the liabilities side, decisions on the acceptance or rejection of registered creditors' claims and their allocation to individual classes will be

made in the process of drawing up the schedule of claims. It is envisaged that the schedule of claims will be drawn up in the course of 2004 and submitted to creditors for inspection in 2005. There are plans to make a further, voluntary call for creditors' claims for the CHF bonds and the guarantee claims relating to the USD and EUR bonds once work on the schedule of claims has reached a stage that it can be submitted soon afterwards. Known creditors will be notified of the precise timing of the additional call for creditors' claims in good time.

Furthermore, the necessary action will be taken in order to realise the remaining assets. In particular, the investigations into responsibility and Pauliana claims will progress sufficiently for a decision to be reached before end-2004 on what steps to take next.

Further information for creditors, in the form of a circular, is planned for autumn 2004.

Yours sincerely

SAirGroup in debt restructuring liquidation

Liquidator


Karl Wirthrich

Encs: Liquidation status of SAirGroup as of 31 December 2003

SAirGroup in debt restructuring liquidation

LIQUIDATION STATUS AS OF 31 DECEMBER 2003

	31.12.2003 CHF	31.12.2002 CHF	Change CHF	Remarks	
ASSETS					
Liquid funds					
Cash	7,121	5,887	1,234		
Postal cheque / CS	0	145,228	-145,228		
UBS Ltd CHF	1,117,805,682	3,279,145	1,114,526,537		
UBS Ltd USD	9,421,451	229,187	9,192,264		
UBS Ltd EUR	109,324	192,580	-83,256		
ZKB CHF	415,833	59,883	355,950		
Fixed-term deposits	0	994,700,000	-994,700,000		
Etude Mottu & Van Berchem (proceeds of sale of Foyer)	8,438,944	0	8,438,944		
Total liquid funds	1,136,198,355	998,611,910	137,586,445		
Liquidation positions:					
Accounts receivable	17,530,804	86,951,242	-69,420,438		
Open apportionment of proceeds from sale of Swissport Restorama, RailGourmet and Nuance	70,000,000	70,000,000	0		
Open apportionment of costs incurred during debt restructuring moratorium among Swissair, SAirLines, T Group und SAir Services Invest AG	9,000,000	0	9,000,000		
UBS Ltd USD deposit	29,101,432	33,179,000	-4,077,568	pledged	
Receivables from third parties	219,796,096	274,931,848	-55,135,752		
Real estate	102,478,924	105,050,000	-2,571,076		
Furnishings, vehicles, aircraft	6,000,005	66,970	5,933,035		
Shareholdings, securities	280,013	746,030	-466,017		
Intangible assets (brand name etc.)	p.m.	p.m.			
Responsibility claims	p.m.	p.m.			
Pauliana claims	p.m.	p.m.			
Total liquidation positions	454,187,275	570,925,090	-116,737,815		
TOTAL ASSETS	1,590,385,630	1,569,537,000	20,848,630		
LIABILITIES					
Debts of the estate					
Accounts payable	8,384,387	11,405,798	-3,021,411		
Provisions for liquidation costs	10,000,000	0	10,000,000		
Total claims from general body of creditors	18,384,387	11,405,798	6,978,589		
TOTAL DISPOSABLE ASSETS	1,572,001,243	1,558,131,202	13,870,041		
CREDITORS' CLAIMS					
Category	Registered	by SAirGroup		Dividend	
		contested	recognised	Minimum	Maximum
Secured by right of lien	34,868,305	0	34,868,305	83.5%	83.5%
First class	191,587,505	91,617,452	99,970,053	100.0%	100.0%
First class, Swissair employees	93,466,560	93,466,560	0	100.0%	
Second class	986,148	105,136	881,012	100.0%	100.0%
Third class	50,310,987,080	41,144,400,185	9,166,586,895	2.5%	15.7%
Total creditors' claims	50,631,895,598	41,329,589,333	9,302,306,265		

Hotline SAirGroup in debt restructuring liquidation

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