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To the creditors of SAirLines  
in debt restructuring liquidation

Küsnacht, August 2004 Wü/GaM

## SAirLines in debt restructuring liquidation; Circular no. 2

Ladies and Gentlemen

This Circular provides information on the status of the SAirLines 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 Liquidators produced a report on activities pursuant to Art. 330 of the Swiss Debt Enforcement and Bankruptcy Law (*SchKG*) as of 31 December 2003. Once it had been reviewed and approved by the Creditors' Committee, the Liquidators submitted this report on activities on 30 August 2004 to the debt restructuring judge at the district court (*Bezirksgericht*) of Zurich. The report on activities will be available for inspection by creditors at the Co-Liquidators' offices at Seestrasse 39, Goldbach-Center, 8700 Küsnacht until 24 September 2004. Appointments must be made in advance with Ch. Rysler, telephone +41 43 222 38 00.

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

## **2. OVERVIEW OF THE LIQUIDATION PROCESS**

### **2.1 Activities of the Liquidators**

By the end of December 2003, the Liquidators had prepared and conducted the realisation of assets. Specific tasks to be mentioned in this context are the preparations for the sale of Avireal and the participation in Cargolux. Working closely with the Creditors' Committee, the Liquidators have instituted measures to clarify potential responsibility and Pauliana claims.

The Liquidators have also begun to draw up the schedule of claims with a view to settling liabilities. Some of the registered claims needing to be assessed are based on complex legal arrangements. Furthermore, the impact of the mergers of SAirLines with S Air Services, S Air Logistics and S Air Relations will have to be taken into consideration with regard to Art. 748 para. 5 Swiss Code of Obligations. The examination of these problems will take quite some time.

### **2.2 Activities of the Creditors' Committee**

The Creditors' Committee held a total of two meetings up until the end of December 2003. At its meetings, the Creditors' Committee discussed the various applications submitted by the Liquidators and passed resolutions accordingly.

## **3. REALISATION OF ASSETS**

### **3.1 General**

Up until the end of December 2003, the Liquidators took action to collect a variety of outstanding accounts receivable in Switzerland and abroad. Details on the sale of the participation in Airline Financial Support Services (India) Ltd. are reported below

### **3.2 Stake in Airline Financial Support Services (India) Private Ltd.**

Airline Financial Support Services (India) Private Ltd. ("AFS"), which has its registered office in Bombay, was established on 13 December 1992 as a joint venture between the "old Swissair" (now SAirGroup) and the Indian company Tata Sons Ltd. (TSL) in Bombay. At the time, the "old Swissair" took over 2,700,100 out of a total of 3,600,000 AFS

shares and assumed the operational management of AFS. In October 1998, AFS increased its share capital by 50% from its own free funds and issued 1,800,000 bonus shares to its shareholders in proportion to their existing shareholdings. Swissair received a share certificate for 1,350,050 shares. The purpose of AFS is to provide airlines with financial services relating in the broadest sense to the sale of air tickets. In addition to Swissair, AFS also succeeded in winning other airlines as customers. In the summer of 2003, its regular clients included SWISS International Air Lines AG, Austrian Airlines and other airlines. The company employs between 300 and 400 staff. At the end of 2002, Swissair began negotiations with TSL on the sale of the AFS stake. The negotiations were successfully concluded in the summer of 2003. A purchase agreement was concluded between Swissair and TSL. After conversion of the purchase price into Swiss francs and deduction of the capital gains tax levied at source in India as part of the execution of the sale of the AFS shares, the net proceeds of the sale amounted to CHF 5,368,150.42.

The restructuring of the Swissair Group in 1997 also created a lack of clarity in relation to the ownership status of the AFS shares. When SAirLines was established as a sub holding company to hold the airline shareholdings, the shares should have been brought into this company as a contribution in kind. While preparing the sale of the AFS shares in the summer of 2003, it was ascertained that the share certificates were still made out in the name of Swissair and did not bear any endorsements in favour of SAirLines. In the share register of AFS in India there had likewise been no implementation either of the change in the company name of the "old Swissair" to SAirGroup or of the transfer of the AFS shares to SAirLines. The proceeds of the sale were therefore transferred to a non-Swissair account which can only be operated jointly by the Deputy Liquidator of Swissair, attorney-at-law Dr. Niklaus Müller, the Co-Liquidator of SAirLines, Dr. Roger Giroud, and the Liquidator of SAirGroup, Karl Wüthrich. As part of the liquidation proceedings, the ownership status of the AFS shares must now be clarified between the estates of SAirLines, Swissair and SAirGroup.

#### 4. ASSET STATUS OF SAIRLINES AS OF 31 DECEMBER 2003

##### 4.1 Introductory remark

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

##### 4.2 Assets

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

As-yet unrealised assets: the assets that have not been realised consist, in the main, of claims against former companies of the Swissair Group, and participations and securities held by SAirLines. Moreover, any responsibility and Pauliana claims are carried pro memoria.

##### 4.3 Debts of the estate

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

Provision for portion of salary of Close Down Team: During the debt restructuring moratorium, SAirGroup paid the salaries of certain employees who have also been active for SAirLines. The apportionment of these costs still has to be made.

##### 4.4 Creditors' claims

The process of assessing registered claims in the context of drawing up the schedule of claims has not yet been completed (see section 6 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 SAirLines. It should be noted in this connection that, in deciding whether to recognise or reject claims, the liquidation bodies are not bound by SAirLines' assessment of the registered claims. Regarding first and third class claims the following remarks should be made:

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

Third-class claims: the claims filed in the approximate amount of CHF 66 billion contain duplicate filings of more than CHF 35 billion as well as the claim of approximately CHF 11 billion arising out of the complex Sabena/Belgium. The claims from Belgium are currently subject to appeal at the Cour d'appel de Bruxelles.

#### **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 as part of the process of drawing up the schedule of claims. The range lies between 0.8% and 49.4%.

#### **5. ELECTION OF A NEW MEMBER OF THE CREDITORS' COMMITTEE**

To replace Dr. Andreas Casutt who stepped down from the Creditors' Committee in July 2003, the Creditors' Committee elected at its meeting of 30 March 2004 lic. oec. Maryann Rohner, Zurich, as a new member of the Creditors' Committee.

#### **6. PLANNED 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 this year and submitted to creditors for inspection in 2005.

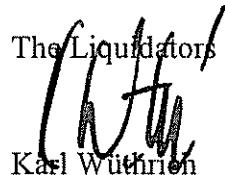
Furthermore, the necessary action will be taken in order to realise the remaining assets. Primarily, the sale of Avireal will be pushed. In particular, the investigations into responsibility and Pauliana claims will progress sufficiently for a decision to be reached before end-2004 on what steps to take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

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


Yours sincerely

SAirLines in debt restructuring liquidation

The Liquidators



Karl Wüthrich



Dr. Roger Giroud

Encs: Liquidation status of SAirLines in debt restructuring liquidation, as of 31 December 2003

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in debt restructuring liquidation**

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## LIQUIDATION STATUS AS OF 31 DECEMBER 2003

	31.12.2003 CHF	31.12.2002 CHF	Change CHF
<b>ASSETS</b>			
<b>Liquid funds</b>			
Cash	3	0	3
UBS AG CHF	222'550'919	2'021'294	220'529'625
UBS AG USD	1'010'663	264'015	746'648
UBS AG EUR	18'890	4'765'274	-4'746'384
ZKB CHF	1'035'527	1'493'742	-458'215
Fixed-term deposits	0	196'000'000	-196'000'000
<b>Total liquid funds</b>	<b>224'616'002</b>	<b>204'544'325</b>	<b>20'071'677</b>
<b>Liquidation positions</b>			
Accounts receivable	863'644	24'530'640	-23'666'996
Open apportionment of proceeds and escrow accounts from the sale of Swissport, Restorama, Rail-Gourmet, GateGourmet and Nuance	65'000'000	65'000'000	0
Receivables from third parties	24'929'810	20'536'295	4'393'515
Shareholdings, Securities	309'039'359	295'807'740	13'231'619
Responsibility claims	p.m.	p.m.	
Pauliana claims	p.m.	p.m.	
<b>Total liquidation positions</b>	<b>399'832'813</b>	<b>405'874'675</b>	<b>-6'041'862</b>
<b>TOTAL ASSETS</b>	<b>624'448'815</b>	<b>610'419'000</b>	<b>14'029'815</b>
<b>LIABILITIES</b>			
<b>Debts of the estate</b>			
Accounts payable	654'615	707'939	-53'324
Provision for partial salary Close Down Team	1'000'000	0	1'000'000
Provision for liquidation costs	10'000'000	0	10'000'000
<b>Total debts of the estate</b>	<b>11'654'615</b>	<b>707'939</b>	<b>10'946'676</b>
<b>TOTAL DISPOSABLE ASSETS</b>	<b>612'794'200</b>	<b>609'711'061</b>	<b>3'083'139</b>

## CREDITOR'S CLAIMS

Category	Registered	by SAirLines		Dividend	
		contested	recognised	Minimum	Maximum
Secured by right of lien	0	0	0		
First class	196'796	196'796	0	100.0%	
First class Swissair employees	93'466'560	93'466'560	0	100.0%	
Second class	3'082	3'082	0	100.0%	
Third class	66'346'054'069	65'105'638'105	1'240'415'964	0.8%	49.4%
<b>Total creditor's claims</b>	<b>66'439'720'507</b>	<b>65'199'304'543</b>	<b>1'240'415'964</b>		