

Appendix 1 to the press release

Results of Ernst & Young's Investigation regarding Swissair

As requested by the administrator, we summarized below certain of our findings in the investigation regarding Swissair. Our findings are based on documents and information which were made available to us during our investigation. Although the files were not complete, in our opinion, these documents and information which were available to us provide sufficient evidence for the observations and conclusions made. Quite naturally, the answers to individual questions posed are subject to judgement and interpretation. We did not perform an examination in the sense of an audit. In our analyses and report, we have made a concerted effort to base our conclusions on objective evaluation criteria and facts. Clarification of and the legal assessment of any responsibilities involved will be made as required by the administrator, and were not a subject of our assignment.

Hunter Strategy: Starting Point and Concept

Following the Swiss voting populace's rejection of the EEC Agreements on December 6, 1992, Swissair's free access to the European market was denied. Instead of being forced to negotiate traffic rights bilaterally with each individual EU member state, the hunter strategy which was developed at the end of 1997 foresaw alliances with European national airlines. The large intercontinental aircraft were to be used at optimum capacity, and thanks to a high increase in passenger frequency Swissair was to become an attractive partner for a large American airline ("the fourth power in Europe"). The intended expansion of Swissair was focused on countries, airports and markets with large growth potential (Belgium, Austria, Finland, Hungary, Portugal and Ireland), and not on the mature markets such as Germany, France, Great Britain and Italy. In addition, the Zurich airport was to be used as a central hub and expanded. The hunter strategy was not conceived as an aggressive acquisition strategy, but rather as a moderate investment strategy with clearly minority investments (10% - 30%) and defined capital requirements (CHF 300 million).

Implementation of the Hunter Strategy

In order to implement the hunter strategy, SAirGroup acquired interests in the airlines LTU, AOM, Air Liberté, Air Littoral, Volare Group, LOT and SAA at short time intervals between 1998 and 1999. For these investments, the Group paid around CHF 4.1 billion (cash out). All acquisitions were formally approved by the Board of Directors.

From its outset, the implementation of the hunter strategy did not conform with its conception. Investments in airline companies were acquired which exceeded 30% and which did not fulfill, or which only partially fulfilled the criteria set forth in the hunter strategy. The Polish LOT, as a national airline, represented an exception. The purchase of Tour Operators LTU merits special mention; an entrance into the leisure area was not anticipated in the hunter strategy. With the exception of LOT, all

companies acquired were in a desolate financial situation. Between 1995 and October 5, 2001, the total financial engagement resulting from acquisitions of airline investments amounted to CHF 5.9 billion.

Conflict with EC Law

The realization of the hunter strategy in the form selected by management was hindered by the EC Ordinance VO 2407/92 of July 23, 1993, whereby an air transportation company was granted a permit to operate in the EU only if at any given time the majority of its direct or indirect owners were citizens of EU member states. The maximum shareholding quota was thus limited to 49.9%. As long as the bilateral agreements between Switzerland and the EC were not in effect, Swissair would not have been able to acquire a majority interest in any airline within the EC without forfeiting the operating permit of such an airline.

This starting position led Swissair to formally comply with the EU Ordinance, but de facto to circumvent this regulation. In order to obtain direct management control immediately as well as to formally insure the subsequent takeover of a majority interest, the Group had to resort to complex and difficult to manage structures, call/put options, portage solutions, guarantee commitments, as well as multiple tiered and non-transparent intermediate financing. SAirGroup thus assumed the full financial and commercial risk, although communication to outsiders indicated that only minority interests were involved. Call/put options as well as guarantees granted later caused additional cash disbursements in the billions. The full consolidation of significant subsidiaries which would have been necessary, was not performed, as it would have resulted in making public disclosure of the existence of effective control.

Financing of Acquisitions of Investments

The Board of Directors had severely underestimated the funds which would be required to implement the hunter strategy. The financing of this strategy, in the form carried out by management, was at no time assured. Neither in the business plan nor in the annual budgets was the corresponding requirement of funds considered. In the end, the funds which were invested were significantly higher than the Board of Directors had originally approved. Because for the most part airlines requiring financial restructuring were acquired, the liquidity requirements increased over-proportionally. Divestments totaling CHF 2.7 billion were undertaken in order to reduce the steadily growing financing gap. However, these divestments largely represented sale and lease back transactions involving the Group's own aircraft fleet. While these transactions resulted in a cash flow and an improvement of the financial picture in the short run, the lease payments lead to a corresponding cash outflow in subsequent years. Within two years (1999 and 2000), the off balance sheet obligations increased by some CHF 5 billion.

Financial Reporting

The unconsolidated and consolidated financial statements for 1999 and, to a much greater degree, for 2000, did not fairly present the economic and financial situation of the SAirGroup.

The consolidated financial statements of the Swissair Group for 1999 and 2000 show fundamental consolidation deficiencies in that, among other items, the French subsidiaries and LTU were not fully consolidated, although the economic benefits and risks lay entirely with SAirGroup. Similarly, Sabena was not fully consolidated, although (by July 2000 at the latest) effective control did also exist. For the years 1999 and 2000, significant off balance sheet transactions were not correctly and completely reported in either the consolidated financial statements or in the unconsolidated financial statements of SAirGroup as of December 31, 1999 and December 31, 2000.

In addition, new guarantees which had been granted in the amount of CHF 1.1 billion were not disclosed as contingent liabilities in the 2000 financial statements of SAirGroup.

Over-indebtedness and Going Concern Uncertainty

At the level of the holding company (unconsolidated financial statements of SAirGroup), the 2000 financial statements would have reported a loss of share capital had these been fairly presented. The application of the principle of prudence would most probably have resulted in SAirGroup being over-indebted as of December 31, 2000, as, among other items, the investment in SAirLines was overvalued by around CHF 1.0 – 1.5 billion. As of December 31, 2000, there was at least a justifiable concern of over-indebtedness. Also a balance sheet prepared based on liquidation values would probably not have alleviated the over-indebtedness, as the liquidation values in such a case are typically lower than the going concern values.

Both at the time SAirGroup's unconsolidated financial statements for the year 2000 and the 2000 consolidated financial statements for the Swissair Group (which were formally approved by the Board of Directors on March 30, 2001) were prepared, as well as at the time these were made public (financial press conference on April 2, 2001, general meeting on April 25, 2001), the ability of SAirGroup to continue as a going concern was seriously jeopardized.

Swaps with Treasury Shares

In connection with the equity swaps on treasury shares, SAirGroup experienced losses requiring cash outflows in the amount of CHF 512 million between 1999 and 2001. Furthermore, these transactions were not fairly presented in the financial statements. As of December 31, 2000, the amount required to be shown as a deduction from shareholders' equity and disclosed as loans payable would have been CHF 578 million.

Auditors and Group Audit

Neither in the report of the auditors nor in that of the group auditors was reference made to the grave errors in the unconsolidated or consolidated financial statements with a qualification or an additional comment. Likewise, no reference was made in these reports to the going concern uncertainty.

Semi-Annual Financial Statements as of June 30, 2001

In the consolidated and audited semi-annual financial statements as of June 30, 2001, a reference to the “going concern” issue was correctly made in the footnotes under that title. Nevertheless, the semi-annual report at June 30, 2001 did not present the economic and financial situation of the Group fairly, as the French subsidiaries, LTU and Sabena should have been fully consolidated due to the still existing effective control.

Grounding on October 2, 2001

With the announcement of the filing for a debt-reconstruction moratorium on October 1, 2001, Swissair's liquidity requirements “exploded”. Regular flight operations could no longer be maintained, so that on October 2, 2001 these were suspended and, at 3:35 P.M., grounded.

According to the results of Ernst & Young's investigations of SAirGroup, and in contradiction to representations made by SAirGroup, not just CHF 14.5 million, but around CHF 50 million were available at the company's disposal on the morning of October 2, 2001. Without the administrative inadequacies connected with the release of an escrow account, an additional CHF 73 million would have been available. Thus, overall some CHF 123 million would have been available at SAirGroup, SAirLines and Swissair.

In accordance with the Swissair Group's methods of operations concerning liquid funds before and after October 2, 2001, the liquidity issue alone would not have mandated the grounding of flight operations, at least not on October 2, 2001.

Payments Made Prior to the Grounding

Immediately prior to the filing for debt-reconstruction moratorium at the end of September 2001, payments amounting to roughly CHF 150 million which were not essential to maintain business operations were ordered and carried out. By revising the cash management in response to the situation, these funds could have been effectively used to sustain the flight operations.

Preparation of the Filing for a Debt-Reconstruction Moratorium

Up until the very end, the Board of Directors and management relied largely on the support of third parties (the federal government, banks, consultants) rather than introducing the necessary restructuring measures themselves on a timely basis and preparing themselves in advance for various crisis scenarios. Professional crisis management was not established. Key persons were also not sufficiently familiar with the legal requirements imposed by the existing crisis, and failed to take the necessary measures in time. The filing for a debt-reconstruction moratorium was not prepared on a timely or appropriate basis.

Essentials of the Corporate Governance

The management and supervisory functions prescribed in the corporate regulations reflected current standards and basically called for the segregation of operative management and supervisory functions. With the exception of the full-time office of the President, SAirGroup's Board of Directors was

comprised of individuals who, in addition to their duties as board members, occupied leadership positions in other enterprises (banks, insurance and industrial companies) or high-ranking political posts. According to the information available to us, no board member had solid experience in the operative management of or in monitoring an international airline company. Nevertheless, various critical concentrations of duties between the Board of Directors and management on the one hand, and within corporate management on the other hand, served as an obstacle to an effective implementation of Corporate Governance.

Management and supervision by the Board of Directors

The Board of Directors did not have the implementation of the hunter strategy monitored by professional risk management. The financial information at their disposal for this purpose was inadequate. Financial and liquidity planning tailored to SAirGroup's earnings potential and investment activities was not in place. An overall investment plan, which would have enabled the monitoring of the hunter strategy's implementation and in particular the financing thereof, was missing. Acquisition budgets approved by the Board of Directors were heavily exceeded on a regular basis, without any intervention on the part of the board. The Board of Directors allowed management to purchase airlines which were financially unsound at excessive prices. It tolerated the fact that in the acquisition of certain of these airline investments, SAirGroup effectively circumvented EU law and, in addition, under consideration of the actual substance of the contracts (call/put options, guarantees granted, etc.), assumed de facto full financial responsibility. The excess costs involved not only purchase prices which were higher than planned, but also the additional commitments made (guarantees, options), which later led to increased disbursements in the billions.

SAirGroup's Acquisition Conduct

During the decision-making phase of the acquisition, SAirGroup behaved hectically, and during the implementation phase with little diligence. Documents show that SAirGroup was under tremendous pressure to make acquisitions, and was prepared to take advantage of any purchase opportunity under any circumstances. The valuations of the investments acquired were not based on in-depth corporate analyses. To a large extent, these were mathematical value calculations such as those normally prepared by investment bankers or corporate finance consultants. In view of the complexity and the size of the acquisitions, the investment proposals submitted to the Board of Directors were not adequately documented. For example, there is no documentation as to whether or not the due diligence reports or the significant contract terms were submitted to the board. The minutes of the meetings of the Board of Directors permit the conclusion that the board dispensed with the greater portion of these transactions without sufficient debate and consideration.

Zurich, January 24, 2003

Ernst & Young