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**Unofficial translation of
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To the creditors of
Swissair Swiss Air Transport
Company Ltd in debt restructuring
liquidation

Küsnacht, July 2004 Wü/cb

Swissair Swiss Air Transport Company Ltd in debt restructuring liquidation; Circular no. 2

Ladies and Gentlemen

This Circular provides information on the status of the Swissair Swiss Air Transport Company Ltd ("Swissair") 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 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 7 June 2004 to the debt restructuring judge at the district court (*Bezirksgericht*) of Bülach. 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 30 July 2004, provided that they

make an appointment in advance with Ch. Rysler, telephone +41 43 222 38 00.

2. OVERVIEW OF THE LIQUIDATION PROCESS

2.1 Activities of the Liquidator

By the end of December 2003, the Liquidator and the Deputy Liquidator, Dr. Niklaus Müller, 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 abroad. The establishment of Swissair in the spring of 1997 and the transfer of assets from the "old Swissair", today's 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 the "old Swissair" 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 the Deputy Liquidator.

Working closely with the Creditors' Committee, the Liquidator and the Deputy Liquidator have instituted measures to clarify potential responsibility claims.

The Liquidator has also begun to draw up the schedule of claims with a view to settling the liabilities. The claims of roughly 8,000 creditors need to be assessed. Some of the registered claims are based on complex legal arrangements and will take quite some time to process. In contrast, the settlement and payment of the privileged claims of employees pursuant to item 4 of the debt restructuring agreement (see item 3 below) have largely been completed.

2.2 Activities of the Creditors' Committee

The Creditors' Committee held a total of three meetings up until the end of December 2003. In constituting itself, the Committee elected Dr. Dieter Hauser as its Chairman and Dr. Kurt Meier as its Deputy Chairman.

At its meetings, the Creditors' Committee discussed the various applications submitted by the Liquidator and passed resolutions accordingly.

3. PAYMENT OF THE PRIVILEGED CLAIMS OF FORMER EMPLOYEES SETTLED BY THE DEBT RESTRUCTURING AGREEMENT

Of the 5,750 former Swissair employees who received an offer pursuant to item 4 of the debt restructuring agreement for the settlement of their registered privileged claims, 5,069 accepted the offer. By 31 December 2003, the statements necessary for the payment of the sums owed had been prepared for 5,034 employees. On the basis of these statements, a net total of CHF 98,450,814.31 has been paid to 4,958 former Swissair employees. In the case of the remaining 76 employees, the statement balance worked out at a total of CHF 96,276.55 in favour of Swissair as Swissair had counterclaims based on various legal grounds (loans, advances on expenses etc.). Swissair paid out additional sums from the statements to the pension fund, to the AHV/ALV equalisation funds, to the tax authorities for deduction at source of the cantons of Geneva and Zurich and to various third parties. As of 31 December 2003, the total payments made amount to CHF 113,327,543.61. In respect of the processing of the 35 cases for which it has not yet been possible to prepare statements, a payment in the amount of CHF 2 million is expected to be made. The total payments pursuant to item 4 of the debt restructuring agreement should therefore not exceed CHF 116 million.

4. REALISATION OF ASSETS

4.1 General

During the period under review, the Liquidator pressed ahead with the collection of outstanding accounts receivable arising from flight operations and loan claims in Switzerland and abroad. Operating equipment was also sold. The most important activities undertaken to liquidate assets are reported in the following.

4.2 Stake in Airline Financial Support Services (India) 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, the Co-Liquidator of SAirLines and the Liquidator of SAirGroup. 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.

4.3 Compensation claims relating to the crash of SR 111 in September 1998

On 2 September 1998, a Swissair MD-11 flying from New York to Geneva (flight no. SR 111) crashed into the sea near Peggy's Cove, Nova Scotia, Canada. All 215 passengers and 14 crew members were killed in the accident. The MD-11 which crashed was insured under a group policy. The policy was reinsured worldwide. Swissair's insurers made payments amounting to several hundred million Swiss francs. It was possible to settle all claims entered by surviving dependants of the victims. According to the report of the Canadian Transportation Safety Board, a part from Swissair, Boeing and possibly SAirGroup, responsibility for the losses suffered could potentially also be attributed to the parties involved in the manufacture and installation of the in-flight entertainment system ("IFEN"). The contracting party of Swissair for the manufacture of the IFEN system was Interactive Flight Technologies, whose subcontractor was Santa Barbara Aerospace. The system was installed by Hollingsead International Inc. As direct consequences of the accident Swissair incurred uninsured costs amounting to around USD 9 million. In November 2002, Swissair and Boeing's insurers reached a settlement with Hollingsead International Inc., under which the latter pays the insurers the sum of USD 100 million as the balance of all claims arising from the crash of flight SR 111. Hollingsead International Inc. insisted that the settlement should also be signed by and apply to Swissair. In negotiations with Swissair's insurers it was possible to make available a share of the settlement sum amounting to USD 1.5 million for the uninsured costs. The Creditors' Committee approved the relevant agreement. The sum of USD 1.5 million was received by Swissair.

4.4 Dissolution of a leasing structure relating to four Airbus flight simulators

Under sale and lease back transactions, at the end of 2000, Swissair sold and leased back four Airbus flight simulators which it owned and subleased them to Swissair Training Center Ltd. The transaction is 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, Swissair and SAirGroup provided various

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 Swissair, net claims of around USD 44 million arising from the leasing transactions were registered after deduction of realised collateral. The same claims were also filed in the SAirGroup insolvency proceedings based on SAirGroup's guarantee. After intensive negotiations, the parties reached the following agreement for the dissolution of the leasing transactions relating to the 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 4 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.

5. ASSET STATUS OF SWISSAIR AS OF 31 DECEMBER 2003

5.1 Introductory remark

In the Appendix, you will find a report on the liquidation status of Swissair as of 31 December 2003 containing a statement of the currently known assets of Swissair in debt restructuring liquidation as of 31 December 2003. Compared to the status as of 31 December 2002, various assets have been assigned higher valuations.

5.2 Assets

The assets that have not been realised consist, in the main, of bank deposits abroad which are still frozen, outstanding accounts receivable arising from flight operations, claims against former companies of the Swissair Group, share positions held by Swissair, residual IT equipment, office furnishings and foreign real estate, where owned by Swissair (see section 2.1 above). Moreover, any responsibility and Pauliana claims are carried pro memoria.

5.3 Debts of the estate

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

Provisions for outstanding statements: the Swiss Confederation granted Swissair loans totalling CHF 1.45 billion to enable it to continue flight operations between 5 October 2001 and 30 March 2002. These loans were utilised up to the amount of CHF 1.15 billion. The final statement relating to these loans is currently still outstanding and will be prepared in cooperation with the Swiss Federal Audit Office ("*Eidgenössische Finanzkontrolle*"). Other statements still outstanding are those relating to reciprocal services with Swisscargo AG in debt restructuring liquidation and Swiss International Air Lines AG arising from the continuation of flight operations between 5 October 2001 and 30 March 2002. In both cases there are differences between the parties' assessments of various points.

5.4 Creditors' claims

The process of assessing claims in the context of drawing up the schedule of claims has not yet been completed (see section 7 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 Swissair. It should be noted in this connection that, in deciding whether to recognise or reject claims, the liquidation bodies are not bound to Swissair's assessment of the registered claims.

6. 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 0.4% and 7.3%, however.

7. WAIVER OF PURSUING OF DISPUTED CLAIMS

7.1 Claim to payment of a proportion of the surplus of the Swissair pension fund in Canada

In Canada, Swissair has operated a pension fund for its ground staff since 1974. The pension fund was financed both by employees and by Swissair. After Swissair ceased trading on 30 March 2002, the pension fund in Canada had to be wound up (under Canadian law). The pension fund has a surplus of around CAD 1,200,000.

The pension plan established in 1974 (hereinafter referred to as the "1974 pension plan") envisages that on dissolution of the pension fund any surplus should be used exclusively for the benefit of the individual employees who are beneficiaries. On 22 September 1989, the clause on the appropriation of surpluses was amended with retroactive effect backdated to 1 January 1987. Under the new clause, in the event of liquidation half of the pension fund would accrue to Swissair and half to the individual beneficiaries. However, Swissair contravened the provisions of the Articles of Incorporation and the 1974 pension plan by omitting to inform the members of this change. The employees who are currently beneficiaries now take the view that they are entitled to the surplus in its entirety in line with the provisions of the 1974 pension plan. Investigations by Swissair's Canadian legal advisors confirmed this view to be correct. The Office of the Superintendent of Financial Institutions, the Canadian supervisory authority responsible for overseeing the Swissair pension fund, would not consent to Swissair taking a share of the surplus of CAD 1,200,000. The Liquidator and Creditors' Committee have therefore decided not to continue pursuing this disputed claim.

7.2 Claims against Flightlease Holdings (Guernsey) Ltd., Flightlease Air No 4 (Guernsey) Ltd., Flightlease Air No 5 (Guernsey) Ltd. and Flightlease International Ltd.

Swissair has paid Flightlease AG and its group companies, Flightlease Holdings (Guernsey) Ltd., Flightlease Air No 4 (Guernsey) Ltd., Flightlease Air No 5 (Guernsey) Ltd. and Flightlease International Ltd., Bermuda, lease rentals of more than USD 350 million per year. In August 2000, Swissair and Flightlease AG agreed a volume discount of USD 3,000,000 per year, plus 5% on the portion of the lease rentals,

which exceed the threshold of USD 350 million per year. For 2000, Swissair was paid the total volume discount by Flightlease AG. For 2001, the view within the group (which was evidently not laid down in writing) was that the relevant Flightlease company directly owed Swissair its share of the volume discount.

At the beginning of 2004, Flightlease Holdings (Guernsey) Ltd., Flightlease Air No 4 (Guernsey) Ltd., Flightlease Air No 5 (Guernsey) Ltd. and Flightlease International Ltd. went into voluntary liquidation. All four companies are overindebted. Swissair has registered the following claims arising from the volume discount agreement with the companies' UK liquidator:

- Flightlease Holdings (Guernsey) Ltd.	USD	41,532.15
- Flightlease Air No 4 (Guernsey) Ltd.	USD	354,704.15
- Flightlease Air No 5 (Guernsey) Ltd.	USD	69,282.35
- Flightlease International Ltd.	USD	347,343.05

At the end of May 2004, the UK liquidator of these companies rejected the claims registered by Swissair in their entirety in the case of all four companies. The reasoning was based on the (correct) observation that the relevant company was not a contracting party to the volume discount agreement between Swissair and Flightlease AG. According to the UK liquidator the payment obligation in respect of the volume discount rests only with Flightlease AG. The UK liquidator further argued that in 2001 Swissair had "only" paid a total of USD 325,952,273 in lease rentals, so that the floor of USD 350 million p.a. had not been reached.

The liquidation bodies of Swissair assess the chances of being able to enforce the claims against the Flightlease companies as slim. Moreover, the dividend outlook for the individual Flightlease companies is not encouraging. The Deputy Liquidator, who is in charge of dealing with the respective claims, and the Creditors' Committee have therefore decided not to continue pursuing these disputed claims.

7.3 Assignment requests by individual creditors

Each creditor is entitled to request the assignment of the right to take legal action in respect of those legal claims for which the Liquidator and the Creditors' Committee decide to not further pursue them (Art. 325 of the Swiss Debt Enforcement and Bankruptcy Law (DEBL) in

conjunction with Art. 260 DEBL). The rights in question here are the rights to pursue the claim for payment of a proportion of the surplus of the Swissair pension fund in Canada (item 7.1 above) and the claims against Flightlease Holdings (Guernsey) Ltd., Flightlease Air No 4 (Guernsey) Ltd., Flightlease Air No 5 (Guernsey) Ltd. and Flightlease International Ltd. (item 7.2 above).

Requests for assignment according to Art. 260 DEBL may (if accompanied by a precise description of the claim) be lodged with the undersigned Liquidator **in writing** by **30 July 2004 at the latest** (date of postmark of a Swiss post office). The right to request assignment will be deemed to be **forfeited** if this deadline is not met.

8 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. 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

Swissair Swiss Air Transport Company Ltd in debt restructuring liquidation

The Liquidator

Karl Wüthrich

Encs: Liquidation status of Swissair as of 31 December 2003

Swissair Swiss Air Transport Company Ltd in debt restructuring liquidation

LIQUIDATION STATUS AS OF 31 DECEMBER 2003

	31.12.2003 CHF	31.12.2002 CHF	Change CHF
ASSETS			
Liquid funds			
Postal cheque Switzerland	1'664	136'286	-134'621
Banks Switzerland	187'362'577	690'420	186'672'157
Fixed-term deposits	190'760'000	504'268'690	-313'508'690
Total liquid funds	378'124'241	505'095'396	-126'971'154
Liquidation positions:			
Banks/cash and deposits abroad	4'592'185	107'559	4'484'626
Accounts receivable	846'089	2'171'272	-1'325'183
Receivables from third parties	134'756'184	34'518'728	100'237'456
Claims arising from proceeds from operating equipment	2'796'674	2'464'845	331'829
Real estate	p.m.	p.m.	
Shareholdings	8'000'001	2'900'000	5'100'001
Responsibility claims	p.m.	p.m.	
Pauliana claims	p.m.	p.m.	
Total liquidation positions	150'991'133	42'162'404	108'828'729
TOTAL ASSETS	529'115'374	547'257'799	-18'142'425
LIABILITIES			
Debts of the estate			
Accounts payable	341'809		341'809
Provisions for liquidation costs	27'150'304	53'761'415	-26'611'111
Provision for outstanding accounts	100'000'000	130'000'000	-30'000'000
Total debts of the estate	127'492'113	183'761'415	-56'269'302
TOTAL DISPOSABLE ASSETS	401'623'261	363'496'384	38'126'877

CREDITORS' CLAIMS

Category	Registered	by Swissair		Dividend	
		contested	recognised	Minimum	Maximum
Secured by right of lien	23'092'498	23'092'498	0	100.0%	
First class	280'902'273	244'056'305	36'845'968	100.0%	100.0%
Second class	615'435	86'145	529'290	100.0%	100.0%
Third class	32'154'123'961	27'133'080'341	5'021'043'620	0.4%	7.3%
Total creditors' claims	32'458'734'167	27'400'315'289	5'058'418'878		

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in debt restructuring liquidation**

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