

**Unofficial Translation
of German Original**

To the creditors of SAirGroup
in debt restructuring liquidation

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**SAirGroup in debt restructuring liquidation;
Circular No. 11**

Ladies and Gentlemen

This Circular provides information on the status of the SAirGroup debt restructuring proceedings since mid-October 2006 as well as on the next steps planned in these proceedings over the coming months.

I. REPORT ON ACTIVITIES AS AT 31 DECEMBER 2006

Having been acknowledged and approved by the Creditors' Committee on 5 March 2007, the fourth of the Liquidator's reports on activities for 2006 has been submitted to the debt restructuring judge at the district court of Zurich. The report on activities will be available for inspection by creditors until 12 April 2007 at the Liquidator's offices at Seestrasse 39, Goldbach-Center, 8700 Küsnacht. Please make an appointment with Thomas Bächli, tel. +41 43 222 38 00.

The following pages summarise those points of the report on activities which have not yet been covered by one of the Circulars published over the past year.

II. OVERVIEW OF THE LIQUIDATION PROCESS

1. Activities of the Liquidator

Creditors were informed about the most important aspects of the asset liquidation process in Circulars 8 to 10. In 2006, the Liquidator concentrated on settling liabilities (see Circular 10, Section I), pursuing the avoidance claims that had been instigated (see Section V.2 below) and investigating responsibility on the part of directors and officers (see Section V.1 below).

2. Activities of the Creditors' Committee

The Creditors' Committee held seven meetings in total in the course of 2006. At its meetings, the Committee discussed the various proposals submitted by the Liquidator and passed resolutions accordingly. The various stages involved in adopting the schedule of claims proved particularly difficult and time-consuming, as many complex claim relationships had to be reviewed.

III. REALISATION OF ASSETS

The Liquidator continued to collect accounts receivable both in Switzerland and abroad during the period under review. This yielded an amount of around CHF 26 million. Circulars 8 to 10 provided details of the individual realisation transactions.

IV. ASSET STATUS OF SAIRGROUP AS AT 31 DECEMBER 2006

1. Introductory remark

Enclosed is a report on the liquidation status of SAirGroup as at 31 December 2006, containing a statement of the assets of SAirGroup in debt restructuring liquidation as at that date, according to present information.

2. Assets

Court deposits: In 2005 and 2006, SAirGroup had to pay several court deposits in connection with the instigation of a number of avoidance claims. As at 31 December 2006, these deposits amount to CHF 8,496,903.

Open apportionment of proceeds from the sale of Swissport, Restorama, RailGourmet, Gate Gourmet and Nuance: An agreement between SAirLines and SAirGroup concerning the division of the proceeds from the sale of Restorama AG and RailGourmet was concluded and executed in 2006 (see Circular 10, Section IV). The CHF 28,555,289 portion allotted to SAirGroup has now been received, and the item has been adjusted accordingly. It was not possible in 2006 to apportion the proceeds of the sales of the Swissport Group, the Gate Gourmet Group, SR Technics Switzerland and the Nuance Group. The attendant complexities within SAirGroup have largely been resolved. However, an assessment on the part of SAirLines has not yet been completed. Efforts will nonetheless be made to resolve these outstanding matters in the course of this year.

Open apportionment to Swissair, SAirLines, T Group and SAir Services Invest AG of costs incurred during the debt restructuring moratorium and debt restructuring liquidation: There has been a year-on-year change in this item of CHF 365,000 in favour of SAirGroup. Like in the past, 2006 again saw SAirGroup bear costs from which other Swissair companies also benefited. These costs have not yet been apportioned although the relevant principles have been drawn up. It can thus be expected that this outstanding matter will be resolved in the course of the current year.

As-yet unrealised assets: This item still consists primarily of claims against former Swissair group companies, of shareholdings held by SAirGroup, of residual IT items, real estate in Switzerland and abroad (as far as it is owned by SAirGroup) and of securities. Furthermore, intangible assets such as the "Swissair" brand and any responsibility and avoidance claims are carried pro memoria.

3. Debts incurred in the course of the liquidation process

Accounts payable: The accounts payable reported as at 31 December 2006 relate to costs incurred during the debt restructuring liquidation.

4. Creditors' claims

The presentation of the schedule of claims for inspection by creditors resulted in the settlement of the majority of creditors' claims. The "Creditors' claims" table in the liquidation status report as at 31 December 2006 therefore states the total of claims that have been registered in the individual classes, those claims which have been recognised, those which have ultimately been rejected, those which are in dispute (contested) and those for which schedule of claims entries are still suspended. The claim amounts in all classes are still subject to change as work to settle the schedule of claims proceeds.

First-class claims: 90 creditors lodged actions to contest the rejection of their claims or to uphold their right to be included among first-class claims. These actions to contest against the schedule of claims concern a total of CHF 101,819,428.43. Of these actions, 22 have so far been withdrawn, and a settlement has been reached in a further two cases. Some 66 claims, concerning a total of CHF 91,573,726.13, are still pending. Of this figure, CHF 74,175,881.95 relates to three actions from SAirGroup pension institutions, which are demanding that the claims arising from the SAirGroup bonds held by the pension funds be included in the schedule as first-class rather than third-class claims. 59 actions concern rejected claims of CHF 5,531,470.13 from the severance plan for members of management.

Third-class claims: Rejected claims attracted actions to contest the schedule of claims worth a total of CHF 6,017,164,743.40 from 41 creditors. To date, 21 actions have been withdrawn or have been thrown out owing to insufficient grounds or inapplicability. Settlements have been reached in four cases. There are currently 16 actions, worth a total of CHF 5,263,319,635.46, still outstanding. Of this figure, five actions totalling CHF 3,877,894,804.96 concern complexities in Belgium, and two actions totalling CHF 1,328,904,521.00 relate to claims arising from the Group's purported liability for leasing claims against Swissair.

In the meantime, a settlement has been reached with Balair/CTA Leisure AG concerning the claims of CHF 178,767,558.00 that it had registered in several categories but which had been suspended. Balair/CTA Leisure AG is

reducing its claims to CHF 9,127,252.95. Of this figure, CHF 8,127,252.95 will be set off against the legally enforceable third-class claim of CHF 8,127,252.95 that SAirGroup registered in the Balair/CTA Leisure AG insolvency proceedings. The remaining sum of CHF 1 million will be recognised as a third-class claim. Furthermore, SAirGroup will waive the claim it previously lodged in Balair/CTA Leisure AG's insolvency proceedings. The Creditors' Committee has approved this settlement.

5. Estimated dividend

The disposable assets reported in the liquidation status as at 31 December 2006 give a maximum dividend of 12.7%, providing all of the actions that have been lodged to contest the schedule of claims are unsuccessful and only 25% of suspended claims have to be recognised. Should all pending actions be admitted and all suspended claims have to be recognised, however, the minimum dividend would be 5.1%.

V. PURSUIT OF DISPUTED CLAIMS

1. Responsibility claims

1.1 Roscor transaction

Information on the pursuit of responsibility claims in connection with the Roscor transaction was given in Circulars 5 to 7. The responsibility claim in this case was lodged as long ago as the autumn of 2005. The respondents then submitted their defence in mid-2006. They reject the claims that are the subject of the action. A settlement conference under the guidance of the court was held in December 2006, but no result was achieved. SAirGroup now has time until 30 June 2007 to lodge its response.

1.2 Recapitalisation of Sabena in 2001

Circular 7 provided information on the pursuit of responsibility claims in connection with the recapitalisation of Sabena in 2001. With the consent of the Creditors' Committee, SAirGroup therefore filed suit with the District Court of Zurich at the end of February 2006. Once SAirGroup had paid the deposit for costs that was set by the court, the respondent was set a deadline by which to respond to the claims made in the action. The

corresponding defence documents were lodged with the court in January 2007. The respondent disputes all of SAirGroup's claims.

2. Avoidance claims

2.1 Aroma Productions AG

On 17 September 2001, SAirGroup paid Aroma Productions AG CHF 100,000 for its support at the media conference on annual results which was held on 2 April 2001. After a thorough investigation, the Liquidator concluded that the payment to Aroma Productions AG may be challenged under the terms of Art. 288 of the Swiss Debt Enforcement and Bankruptcy Law (DEBL). With the consent of the Creditors' Committee, SAirGroup therefore had filed suit against Aroma Productions AG before the relevant deadline expired.

The action was subsequently settled on the following terms in the course of settlement discussions under the guidance of the Commercial Court of the Canton of Zurich and the parties:

- Aroma Productions AG would withdraw the claims of CHF 233,987.55 it registered as part of SAirGroup debt restructuring proceedings and would refrain from registering any claims that might subsequently be revived.
- SAirGroup would withdraw its legal action.
- Aroma Productions AG is to assume court costs and neither party will seek any court award.
- The performance of the settlement would be deemed to settle in full all reciprocal claims between the parties.

The settlement was approved by the Creditors' Committee. The avoidance claim has since been withdrawn by SAirGroup.

2.2 Danske Bank International S.A., Luxembourg ("Danske Bank")

In September 1995, Danske Bank granted the then Swissair Swiss Air Transport Company Ltd. and subsequent SAirGroup a loan of BEF 1 billion. The loan had a term of five years from the date on which the loan amount was paid out. The loan amount, therefore, fell due for repayment for the

first time on 16 September 2000. However, SAirGroup and Danske Bank agreed to extend the loan until 17 September 2001. At the end of August 2001, Danske Bank then received a further request from SAirGroup to extend the loan once again. Danske Bank rejected this request. Consequently, on 17 September 2001 SAirGroup repaid Danske Bank the sum of BEF 1,051,440,219, i.e. around CHF 40 million (principal plus interest). The Danske Bank loan was thus repaid six days before the terrorist attacks of 11 September 2001 and just less than two and a half weeks before SAirGroup was granted a debt restructuring moratorium on 5 October 2001.

Danske Bank London registered claims of CHF 118,437,457.46 on other pertinent grounds as part of the SAirGroup debt restructuring proceedings. It subsequently assigned these claims to Deutsche Bank AG, and their status in the schedule of claims has since become legally enforceable.

An independent lawyer examined whether or not the payment to Danske Bank could be challenged. He concluded that the case fulfilled the criteria for a challenge that are laid down in Art. 288 DEBL. With the consent of the Creditors' Committee, SAirGroup therefore had filed suit against Danske Bank before the relevant deadline expired.

After the action had been filed, the two parties entered into settlement negotiations. One of Danske Bank's claims was that it could not have been expected to recognise any intention on the part of SAirGroup to cause loss to others. The bank claimed that it had not held privileged information about the financial situation of SAirGroup. The following settlement was finally concluded after intensive negotiations:

- Danske Bank undertook to repay SAirGroup that part of the dividend accruing to the claim of CHF 118,437,457.46 that had been assigned to Deutsche Bank AG and had become a legally enforceable part of the schedule of claims. This payment would, however, be capped at 10% at the time of the payment on account or final payment. Furthermore, Danske Bank would withdraw any and all other claims that might have been registered as part of the SAirGroup debt restructuring proceedings.
- SAirGroup would withdraw its legal action and pay the attendant court costs.

- Neither party would seek a court award.

The settlement was approved by the Creditors' Committee. The avoidance claim has since been withdrawn by SAirGroup.

2.3 *UBS Ltd.*

On 14 September 2001, SAirGroup made a CHF 100 million payment to repay its 3% bond (1987-2001). UBS Ltd. lead-managed this bond issue. Principal and interest were transferred to a special interest-and-principal repayment account set up in the name of SAirGroup at UBS Ltd. UBS Ltd. used this account to make interest and principal repayments to individual bondholders. The bank held CHF 140,000-worth of SAirGroup's 3% bond (1987-2001) among its own securities holdings. After 14 September 2001, it thus repaid itself the sum of CHF 144,200 in principal and interest from SAirGroup's special account.

Having investigated the matter, the Liquidator concluded that the payment to UBS Ltd. may be challenged under Art. 288 DEBL. With the consent of the Creditors' Committee, SAirGroup therefore had filed suit against UBS Ltd. before the relevant deadline expired.

UBS Ltd. contested the action with the primary defence that no creditors had been injured, because they would in any event have been entitled to set off their claims from the bond against the SAirGroup assets held in the special account. In a settlement conference under the guidance of the Commercial Court of the Canton of Zurich, the court's delegation upheld UBS Ltd.'s position and recommended that SAirGroup withdraw its suit. The parties then concluded the following agreement:

- SAirGroup would withdraw its legal action.
- UBS Ltd. would not seek a court award.

The settlement was approved by the Creditors' Committee and the avoidance action has since been withdrawn.

2.4 *Merrill Lynch Capital Markets Ltd. ("Merrill Lynch")*

SAirGroup, Singapore Airlines and Delta Airlines maintained an alliance, with each airline holding shares in the others. This alliance was dissolved in

the autumn of 1999. This released 845,000 SAirGroup registered shares for sale (320,000 of these SAirGroup registered shares were owned by Singapore Airlines, while 525,000 were held by Delta Airlines).

In consultation with SAirGroup, Merrill Lynch International (a UK Merrill Lynch group company) acquired the total of 845,000 registered shares from Singapore Airlines and Delta Airlines. As part of the business relationship between Merrill Lynch and SAirGroup, the following equity swap transactions for these SAirGroup registered shares were concluded in the autumn of 1999 with the following content:

- The equity swap transactions had a term of one year.
- During the term of the transactions, the parties were obliged to compensate for fluctuations in the stock market price of SAirGroup registered shares on a quarterly basis in cash, as follows: if the price of SAirGroup registered shares rose compared with the previous period, Merrill Lynch was obliged to pay cash compensation for any increase in value that exceeded 7.5%. If the price fell, SAirGroup had to compensate Merrill Lynch in cash for the entire loss of value.
- SAirGroup had to pay quarterly interest – corresponding to the LIBOR – on the market value of the equities.
- SAirGroup received an option to buy the 845,000 shares from Merrill Lynch during the term of the equity swap. Merrill Lynch, meanwhile, was entitled to sell the equities on the market at the end of the term.

The term of the transaction was extended by one year in the autumn of 2000. Under the terms of this equity swap, SAirGroup made payments to Merrill Lynch totalling CHF 244,544,489 between October 1999 and 5 October 2001. SAirGroup did not receive any counterperformance at the time of any of its payments to Merrill Lynch.

An independent lawyer examined whether or not the payments could be challenged. He concluded that the payments made in September 2001, totalling CHF 41,531,750, could indeed be challenged under Art. 288 DEBL. With regard to the other payments by SAirGroup to Merrill Lynch, the lawyer concluded that they would constitute a share price guarantee, which is forbidden under company law, and that their restitution could, therefore, be demanded. There were nonetheless considerable risks attached to this

interpretation of company law. The Creditors' Committee instructed the Liquidator to file a claim of CHF 244,544,489 against Merrill Lynch before the relevant deadline expired.

Once the defence had been submitted, the parties entered into settlement negotiations. The following settlement was ultimately concluded in December 2006:

- Merrill Lynch would pay SAirGroup CHF 24 million and waive claims of CHF 38,166,264.50 registered in connection with the equity swap transactions; it would also withdraw the action to contest the schedule of claims that it had lodged after these claims had been rejected.
- The parties would each pay half of the Commercial Court costs; Merrill Lynch would pay the costs of the action to contest the schedule of claims.
- Neither party would seek a court award.

The settlement was approved by the Creditors' Committee. It has since been executed.

2.5 General remarks on avoidance claims

Following the conclusion of the settlements listed above and those with KPMG and Swiss International Air Lines Ltd., avoidance claims have yielded approximately CHF 85 million to date.

No settlement has yet been reached in the other avoidance claims that are still pending with the Commercial Court of the Canton of Zurich. Settlement discussions under the guidance of the courts were held in various cases in 2006, but no conclusion was reached. These legal proceedings will continue.

VI. PLANNED NEXT STEPS IN THE PROCESS

An initial payment to creditors is scheduled to be made within the next few months. The Liquidator will submit the corresponding proposal to the Creditors' Committee. Creditors will be notified in due course.

Creditors will be provided with further information in a Circular that is planned for the autumn of 2007 at the latest.

Yours sincerely

SAirGroup in debt restructuring liquidation

Liquidator

Karl Wüthrich

- Encs.:
1. Overview of proceedings to draw up a schedule of claims for SAirGroup
 2. Liquidation status of SAirGroup as of 31 December 2006

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SAirGroup in debt restructuring liquidation

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LIQUIDATION STATUS as of 31 December 2006

	31.12.2006 CHF	31.12.2005 CHF	Change CHF
ASSETS			
Liquid funds			
UBS AG CHF	188'585'217	166'542'897	22'042'320
UBS AG USD	15'099'218	1'345'491	13'753'727
UBS AG EUR	1'886	53'630	-51'744
CREDIT SUISSE CHF	55'113	15'076	40'037
ZKB CHF	610'890	2'937	607'953
Cash deposits, UBS Ltd, CS, ZKB ¹⁾	1'205'000'000	1'165'000'000	40'000'000
Total liquid funds	1'409'352'324	1'332'960'031	76'392'293
Liquidation positions:			
Accounts receivable	3'920'612	920'640	2'999'972
Prepaid court expenses	8'496'903	6'698'903	1'798'000
Open apportionment of proceeds on sale of Swissport, Restorama, RailGourmet, and Nuance	41'444'711	70'000'000	-28'555'289
Open apportionment of costs relating to Swissair, SAirLines, T Group and SAir Services Invest AG accrued during debt restructuring moratorium	10'735'519	10'370'519	365'000
Receivables from third parties	87'672'981	94'812'093	-7'139'112
Real estate	87'698'625	86'025'625	1'673'000
Furniture, fittings	3	3	0
Shareholdings, securities	376'511	348'512	27'999
Responsibility claims	p.m.	p.m.	
Pauliana claims	p.m.	p.m.	
Total liquidation positions	240'345'865	269'176'295	-28'830'430
TOTAL ASSETS	1'649'698'189	1'602'136'326	47'561'863
LIABILITIES			
Debts of the estate			
Accounts payable	810'020	1'638'055	-828'035
Provisions for liquidation costs	10'000'000	10'000'000	0
Total debts of the estate	10'810'020	11'638'055	-828'035
TOTAL DISPOSABLE ASSETS	1'638'888'169	1'590'498'271	48'389'898

¹⁾ CHF 35'000'000 is assigned as collateral for litigation deposits totalling CHF 30'931'000

Overview of proceedings to draw up the schedule of claims

Category	Registered Amount in CHF	Schedule of claims					Dividend	
		Recognized Amount in CHF	Appeal lodged Amount CHF	Decision suspended Amount in CHF	Rejected Amount in CHF	min.	max.	
		Secured by right of lien	-	-	-	-	-	-
First class	467'115'199.72	11'637'770.09	91'573'726.13	176'920'022.00	186'983'681.50	100.0%	100.0%	
Second Class	615'381.22	289'240.50	-	224'571.12	101'569.60	100.0%	100.0%	
Third Class ¹⁾	48'432'959'819.94	9'830'720'756.41	5'189'143'753.51	11'822'394'846.33	21'590'700'463.69	5.1%	12.7%	
Total	48'900'690'400.88	9'842'647'767.00	5'280'717'479.64	11'999'539'439.45	21'777'785'714.79			

¹⁾ The third-class claims for which decisions have been suspended are factored into this calculation at 25%.