

**Unofficial Translation  
of German Original**

To the creditors of SAirGroup  
in debt restructuring liquidation

Küsnacht, April 2008 WuK/fee

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**SAirGroup in debt restructuring liquidation;  
Circular No. 14**

Ladies and Gentlemen

This Circular provides information on the status of the SAirGroup debt restructuring proceedings since mid-October 2007 as well as on the next steps planned in these proceedings over the coming months.

**I. REPORT ON ACTIVITIES AS AT 31 DECEMBER 2007**

Having been acknowledged and approved by the Creditors' Committee on 18 March 2008, the fifth of the Liquidator's reports on activities for 2007 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 at the Liquidator's offices at Seestrasse 39, Goldbach Center, 8700 Küsnacht until 9 May 2008. Appointments must be made in advance with Christian Rysler, telephone +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 11 to 13. The activities of the Liquidator in 2007 concentrated on settling liabilities, including pursuing actions brought by creditors to contest the schedule of claims (see Section VI below), pursuing the avoidance claims that had been instigated (see Section V.2 below) and investigating and conducting the pending legal proceedings relating to responsibility on the part of directors and officers (see Section V.1 below). A number of assets could also be realised (see Section III below).

### **2. Activities of the Creditors' Committee**

The Creditors' Committee held five meetings in total in the course of 2007. At its meetings, the Committee discussed the various proposals submitted by the Liquidator and passed resolutions accordingly.

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## **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 8.1 million. Circulars 11 to 13 provided details of the individual realisation transactions.

## **IV. ASSET STATUS OF SAIRGROUP AS AT 31 DECEMBER 2007**

### **1. Introductory remark**

Enclosed is a report on the liquidation status of SAirGroup AG as at 31 December 2007, 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 recent years, SAirGroup had to pay several court deposits in connection with the instigation of a number of avoidance claims. As at 31 December 2007, these deposits amount to CHF 9,033,685.

Open apportionment of proceeds from the sale of Swissport, Gate Gourmet and Nuance: It was not possible in 2007 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: The accounts with SAirLines, T Group and SAir Services Invest AG were settled in autumn 2007, with SAirGroup receiving payments totalling CHF 4,200,360. This item has therefore been reduced to about CHF 7.3 million. This figure primarily comprises the account of Swissair which it has not yet been possible to settle, and costs incurred in 2007. Meanwhile, the basic principles governing the settlement of Swissair's account have been drawn up. It should, therefore, be possible to settle the account this 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, of real estate in Switzerland and abroad (in 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 2007 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. For the current status of the schedule of claims proceedings, please see Section VI below. The overview of the schedule of claims proceedings (attached) 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 (actions to contest the schedule of claims) 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: In 2007 two former middle management employees registered new first-class claims worth a total of CHF 3,686,903.80. Both middle management employees were sued by the bankruptcy estates of former Atraxis companies on grounds of responsibility. They, therefore, registered the claims brought against them as recourse claims against SAirGroup. Although the suspended claims of the seven former Balair pilots (see Section VI.1 below) were settled, suspended or newly registered claims rose to a total of CHF 178,077,543.15.

Second-class claims: Under the terms of the initial interim payment, employer contributions towards AHV (pension), ALV (unemployment) and accident insurance had to be included in the account for payments made to former SAirGroup employees. Additional claims from the AHV equalisation fund and the accident insurance fund amounting to CHF 212,689.40, therefore, had to be included under second-class claims.

Third-class claims: In 2007 six creditors registered new third-class claims worth a total of CHF 62,753,087.26. Of this, about CHF 60 million is in respect of recourse claims registered by persons being sued by the bankruptcy estates of former Atraxis companies on grounds of responsibility.

#### 5. Estimated dividend

The disposable assets reported in the liquidation status as at 31 December 2007 give a maximum dividend of 14.3%, providing all of the still pending actions to contest the schedule of claims are unsuccessful and no more

than 40% of suspended claims have to be recognised. Should all of the actions be admitted and the suspended claims have to be recognised in full, however, the minimum dividend would be 7.7%. Of this, 5.3% has already been paid out in an initial interim payment. The remaining dividend that may be expected is therefore between 2.4% and 9%.

## **V. PURSUIT OF DISPUTED CLAIMS**

### **1. Responsibility claims**

#### *1.1 Roscor transaction*

The responsibility claim in this case was lodged as long ago as the autumn of 2005 (Circular No. 8). SAirGroup submitted its reply in summer 2007. The respondents then filed their rejoinder at the end of March 2008. The District Court of Zurich will determine the next steps in the proceedings.

#### *1.2 Recapitalisation of Sabena in 2001*

Comprehensive details of the responsibility issues in this case were given in Circular No. 8. SAirGroup lodged its reply in autumn 2007. The respondents still have time to submit their rejoinder within the deadline.

### **2. Avoidance claims**

A number of counterparties to avoidance actions have objected that avoidance claims have been filed too late. They contend that the applicable time limit under Art. 292 of the Federal Debt Enforcement and Bankruptcy Law (DEBL) should have begun as soon as the debt restructuring moratorium was granted, rather than when the debt restructuring agreement was confirmed. As a result, the parties claim, it is now too late for any avoidance claims. In its decision of 11 May 2007, the Commercial Court of Canton Zurich ("Commercial Court") ruled in the cases of Credit Suisse, Credit Suisse Securities (Europe) Ltd. and Citibank N.A. that the relevant time limit did not begin until the debt restructuring agreement was confirmed in June 2003. The claims had, therefore, been filed before the deadline. The counterparties lodged a civil appeal against these decisions with the Federal Supreme Court ("Supreme Court"). The Supreme Court's rulings of 4 February 2008 rejected these appeals and upheld the

Commercial Court's prior judgments. It is thus established that SAirGroup filed its avoidance claims within the set time limits.

Where specific cases are concerned, the Commercial Court has issued rulings on two avoidance claims. The Commercial Court rejected the claims against Zürcher Kantonalbank of about CHF 80 million and those against Dresdner Bank of about CHF 50 million in rulings issued on 12 January 2007 and 26 November 2007 respectively. In its view, neither Zürcher Kantonalbank in respect of the payments made on 21 August, 5 September and 27 September 2001 nor Dresdner Bank in respect of the payment made on 29 June 2001 could have been expected to recognise any intention on the part of SAirGroup to cause loss to others. SAirGroup has lodged appeals against each of these rulings. A civil appeal before the Supreme Court is pending in respect of the claim against Zürcher Kantonalbank. It may, therefore, be assumed that the Federal Supreme Court will reach a decision on these appeals in 2008. In respect of the avoidance claim against Dresdner Bank, an appeal against the judgment is pending with the Zurich Civil Court of Appeal (Kassationsgericht). The Civil Court of Appeal is expected to come to its decision in the next few months.

In these circumstances, it may be assumed that significant progress will be made regarding the avoidance claims in 2008. The expected Supreme Court ruling on the Zürcher Kantonalbank case, in particular, could lead the way for judgments in the avoidance claims yet to be decided.

## **VI. SETTLEMENT OF LIABILITIES**

### **1. Claims by former Balair pilots**

On 8 February 2000, seven former Balair/CTA pilots lodged claims amounting to CHF 2,641,834 against SAirGroup in a joint action before the Zurich Labour Tribunal. The primary proceedings were concluded before the debt restructuring moratorium commenced. The proceedings were informally suspended when the debt restructuring moratorium came into force. The seven pilots registered claims of about CHF 4.9 million in the liquidation proceedings on the same legal grounds. Some CHF 2.4 million of this figure constitutes first-class claims.

The creditors were essentially claiming salaries and compensation. They were employed as pilots by Balair/CTA, where they earned less than if they

had been working for Swissair in equivalent positions with the same seniority. They argue that the "old" Swissair, later SAirGroup, had made them firm promises regarding their retained rights in respect of both professional status and income. In essence, they say they should have been placed on an equal footing with Swissair pilots when they were assigned to Balair/CTA. It was also asserted that the pilots had been promised they would be re-employed by Swissair with full seniority no later than 1995.

After very protracted negotiations, the following settlement was concluded with the seven claimants:

- The claimants reduce their claims to a total of CHF 121,300 gross; SAirGroup pays the claimants the net amounts after deduction of social insurance contributions within 10 days of the entry into force of the settlement.
- The claimants withdraw their claims against SAirGroup entirely.
- The parties apply to the Zurich Labour Tribunal to cancel the proceedings following the withdrawal of the suit. Neither party seeks a court award and each assumes half of the legal costs.
- When the terms of the agreement have been fulfilled, the claimants and SAirGroup declare all reciprocal claims to be settled.
- This settlement is subject to the approval of the SAirGroup Creditors' Committee.

The Creditors' Committee has approved the settlement, which has now been executed. Seven suspended first-class claims have thus been settled.

## **2. ACTIONS TO CONTEST THE SCHEDULE OF CLAIMS**

During 2007, the following settlements were reached in respect of pending actions to contest the schedule of claims:

*First-class claims:* At the start of 2007, there were 66 actions to contest the schedule of claims still pending in respect of first-class claims totalling CHF 91,573,226.13. Since then, 62 actions have been finally settled by the conclusion of agreements or by the recognition of the underlying claim or as a result of the action being withdrawn. Of the claims amounting to CHF 101,819,428.43 originally submitted, CHF 6,945,510.45 have so far

had to be included in the first-class category. The three actions from SAirGroup pension institutions totalling CHF 74,175,881.95, which demanded 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, were rejected in the first instance by the District Court of Zurich and in one case on appeal by the Higher Court of Canton Zurich ("Higher Court"). The other two cases have been suspended by the Higher Court. The pension institution concerned has lodged a civil appeal with the Federal Supreme Court against the Higher Court's ruling. At present there is only one action, in the sum of CHF 5,899,470, still pending before the District Court of Zurich. This action has been suspended because it concerns a claim which was recognised as a first-class claim in the Swissair debt restructuring proceedings. The action will, therefore, lapse if privileged claims in respect of Swissair are paid in full under the terms of an interim payment in May 2008.

Third-class claims: In respect of third-class claims, at the start of 2007 there were still 16 actions totalling CHF 5,263,319,635.46 pending. At the end of 2007 there were still eight actions totalling CHF 3,916,058,996.89 pending. About CHF 3.88 billion of this concerns the complex situation in Belgium. In autumn 2007, two actions by International Lease Finance Corporation and Sierra Leasing Ltd. in the sum of about CHF 1.3 billion in total, reached an arranged settlement following negotiations at an open discussion before the competent single judge at the District Court of Zurich. The claimants reduced their claims to CHF 99 million. The claims were then recognised by SAirGroup and allocated to the third-class category. Six other actions were also settled. These settlements were all executed with the approval of the Creditors' Committee.

### **3. Initial interim payment**

Executing payments to over 10,000 creditors was a very time-consuming process. By the start of April 2008, some CHF 320 million had been paid to around 10,300 creditors. Creditors who have not yet sent back the settlement form with their account details to the Liquidator are requested to do so. The payment can be executed when the Liquidator has received the form.



Bond creditors who did not submit their securities to the Liquidator until after the schedule of claims had been published in October 2006 will receive a settlement form in May 2008 with a special notice concerning the initial interim payment.

The execution of the initial interim payment to holders of EUR-denominated bonds who have not submitted their securities to the Liquidator will be carried out via the interbank clearing system. The extensive preparations necessary to this end are nearly complete. It is not possible to carry out a similar procedure in respect of CHF and USD-denominated bonds. In the case of these bonds, not all of the securities in circulation are processed via the interbank clearing system. That means that it is not possible to rule out the risk of double payments if the interim payment were to be executed over the clearing system.

#### **VII. PLANNED NEXT STEPS IN THE PROCEEDINGS**

The next phase of the proceedings will involve finalising the schedule of claims and liquidating the remaining assets, specifically real estate in Switzerland and abroad.

The liquidation bodies will also conclude their investigations into responsibility claims and institute any further legal action. Avoidance claims that are still pending will continue to be pursued. It is not possible at present to estimate how long it will take before these two issues are settled.

Creditors will be provided with further information in a Circular that is planned for the autumn of 2008 at the latest.

Yours sincerely

SAirGroup in debt restructuring liquidation

Liquidator

Karl Wüthrich

- Encs:
1. Liquidation status of SAirGroup as at 31 December 2007
  2. Summary of schedule of claims status

**[www.liquidator-swissair.ch](http://www.liquidator-swissair.ch)**

**Hotline**

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## LIQUIDATION STATUS as of 31 December 2007

	31.12.2007 CHF	31.12.2006 CHF	Change CHF
<b>ASSETS</b>			
<b>Liquid funds</b>			
UBS AG CHF	446'980'588	188'585'217	258'395'371
UBS AG USD	948'520	15'099'218	-14'150'698
UBS AG EUR	336	1'886	-1'550
CREDIT SUISSE CHF	907'555	55'113	852'442
ZKB CHF	1'065'894	610'890	455'004
Cash deposits, UBS Ltd, CS, ZKB <sup>1)</sup>	865'000'000	1'205'000'000	-340'000'000
<b>Total liquid funds</b>	<b>1'314'902'893</b>	<b>1'409'352'324</b>	<b>-94'449'431</b>
<b>Liquidation positions:</b>			
Accounts receivable	7'611'734	3'920'612	3'691'122
Prepaid court expenses	9'033'685	8'496'903	536'782
Open apportionment of proceeds on sale of Swissport, Restorama, RailGourmet, and Nuance	39'613'558	41'444'711	-1'831'153
Open apportionment of costs relating to Swissair, SAirLines, T Group and SAir Services Invest AG accrued during debt restructuring moratorium	7'299'237	10'735'519	-3'436'282
Receivables from third parties	86'597'342	87'672'981	-1'075'639
Real estate	87'305'725	87'698'625	-392'900
Furniture, fittings	3	3	0
Shareholdings, securities	376'509	376'511	-2
Responsibility claims	p.m.	p.m.	
Pauliana claims	p.m.	p.m.	
<b>Total liquidation positions</b>	<b>237'837'793</b>	<b>240'345'865</b>	<b>-2'508'072</b>
<b>TOTAL ASSETS</b>	<b>1'552'740'686</b>	<b>1'649'698'189</b>	<b>-96'957'503</b>
<b>LIABILITIES</b>			
<b>Debts of the estate</b>			
Accounts payable	1'050'031	810'020	240'011
Provision, 1st interim payment	1'166'325'337	0	1'166'325'337
Provisions for liquidation costs	10'000'000	10'000'000	0
<b>Total debts of the estate</b>	<b>1'177'375'368</b>	<b>10'810'020</b>	<b>1'166'565'348</b>
<b>TOTAL DISPOSABLE ASSETS</b>	<b>375'365'318</b>	<b>1'638'888'169</b>	<b>-1'263'522'851</b>

<sup>1)</sup> CHF 35'000'000 is assigned as collateral for litigation deposits totalling CHF 27'866'000

## Summary of schedule of claims status

Category	Registered Amount in CHF	Schedule of Claims					Dividend in %							
		Recognized Amount in CHF	Admitted subject to conditions Amount in CHF	Schedule of claims appeal pending Amount in CHF	Decision suspended/New registrations Amount in CHF	Rejected finally Amount in CHF	1st interim payment	Future dividend			Total			
		Amount in CHF	Amount in CHF	Amount in CHF	Amount in CHF	Amount in CHF	min.	max	min.	max.				
Secured by right of lien	-	-	-	-	-	-	-	-	-	-	-	-	-	-
First class	467'115'199.72	18'790'164.79	-	80'075'351.95	178'077'543.15	190'172'139.83	100%	-	-	100%	100%	-	-	100%
Second class	828'070.62	501'929.90	-	-	224'571.12	101'569.60	100%	-	-	100%	100%	-	-	100%
Third class <sup>1)2)</sup>	48'432'959'819.94	9'851'235'854.52	1'084'440'078.83	3'916'058'996.89	4'373'281'117.52	30'292'383'851.01	5.3%	2.4%	9.0%	7.7%	14.3%	-	-	-
<b>Total creditors' claim</b>	<b>48'900'903'090.28</b>	<b>9'870'527'949.21</b>	<b>1'084'440'078.83</b>	<b>3'996'134'348.84</b>	<b>4'551'583'231.79</b>	<b>30'482'657'560.44</b>								

<sup>1)</sup> The minimum dividend calculation factors in 1% of conditional claims.

<sup>2)</sup> The maximum dividend calculation factors in 40% of suspended third-class claims and 1% of conditional claims.