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To the creditors of SAirLines  
in debt restructuring liquidation

Küsnacht, March 2006 WuK/fee

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## **SAirLines in debt restructuring liquidation; Circular no. 7**

Ladies and Gentlemen

This Circular provides information on the progress of the SAirLines debt restructuring proceedings since mid-October 2005, as well as on the next steps planned in these proceedings over the coming months.

### **I. REPORT ON ACTIVITIES AS OF 31 DECEMBER 2005**

Having been acknowledged and approved by the Creditors' Committee, the third of the Liquidators' reports on activities for 2005 has been submitted to the debt restructuring judge at the district court of Zurich on 28 February 2006. The report on activities is available for inspection by creditors at the offices of Co-Liquidator Karl Wüthrich, at Seestrasse 39, Goldbach-Center, 8700 Küsnacht until 28 March 2006. Appointments must be made in advance with Ch. Rysler, telephone +41 43 222 38 00.

The following is a summary of those points of the report on activities which have not already been covered by one of the Circulars published over the past year.

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

### **1. Activities of the Liquidators**

Creditors were informed about the most important aspects of the asset liquidation process in Circulars No. 4 to 6. Over the past twelve months, the activities of the Liquidators have concentrated on settling the sale of Avireal AG (see Circular No. 5, section IV and Circular No. 4, section II.1), the sale of the Cargolux participation (see section III.2 below), the sale of Pro Taxi AG (see section III.3 below), preparations for the sale of the last two US-based shareholdings, and drawing up the schedule of claims. Furthermore, avoidance claims have been reviewed and, in two cases, pursued before the courts (see Circular No. 5, section I and Circular No. 6, sections I and II).

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

As in 2004, the Creditors' Committee held five meetings in the course of 2005. One of the main focal points during the year just ended was to take decisions regarding the pursuit of avoidance claims.

## **III. REALIZATION OF ASSETS**

### **1. General**

The Liquidators continued to collect accounts receivable from Switzerland and abroad during the period under review. They succeeded, in particular, in largely completing the outstanding tasks connected with the sale of the Swissôtel chain. SAirLines has received a payment of CHF 8,310,250, but the remaining sum of CHF 3,169,750 is still outstanding because it has not yet been possible to resolve one final problem, which did not emerge until the spring of 2005. It remains to be seen, once this last hurdle has been cleared, whether or not a payment will still be due from Raffles Holdings Limited.

**2. Sale of the shareholding in Cargolux**

SAirLines holds 33.69% of the Luxembourg freight airline Cargolux Airlines International S.A. ("Cargolux"), which was founded in 1970. Cargolux is the largest freight-only airline in Europe. Its other shareholders are Luxair S.A. (34.89%), the institutional shareholders Banque Générale du Luxembourg Investment Partners (9.39%), Banque et Caisse d'Epargne de l'Etat (8.77%) and Société Nationale de Crédit et d'Investissement (8.57%), as well as four other, smaller shareholders. On 16 December 1998, all shareholders signed a shareholders' agreement, which includes -among others- the following elements:

- Shareholders' right of first refusal (where this right is exercised, shareholders are also entitled to buy only a portion of the shares offered for sale);
- Shareholders' subscription rights;
- Rules concerning voting conduct (inclusion of new shareholders, appointment of the Board of Directors, etc.) and a minimum two-thirds voting majority, especially for resolutions concerning capital increases, changes to the articles of incorporation, mergers, acquisitions and the cancellation of subscription rights;
- A notice period of two years for the termination of the shareholders' agreement.

These clauses in the shareholders' agreement mean that, with its share of 33.69%, SAirLines holds a blocking minority with regard to important resolutions to be passed by the general assembly of the shareholders. However, the other shareholders' rights of first refusal, as laid down in the shareholders' agreement, also make selling this participation more difficult.

In 2002, SAirLines made initial attempts to sell its block of shares in Cargolux. At that time, SAirLines held an auction in which it received two bids, of USD 75 million and USD 100 million. Efforts to sell the participation foundered in 2003 because one of the other shareholders wished to exercise its right of first refusal. Efforts were subsequently

made to clear the relationship with the Luxembourg shareholders in order to prevent the failure of future sale efforts.

From August 2005 onwards, SAirLines was in negotiations with the Luxembourg shareholders about a variety of possible solutions. The sale of SAirLines' Cargolux shares to the other shareholders was one of the options under consideration at that time. In October 2005 Luxair, on behalf of the other Cargolux shareholders, submitted a bid to SAirLines in which it proposed the purchase of the 2,021,553 Cargolux shares at a price of USD 130 million. SAirLines had an expert examine this bid and possible alternatives. The expert concluded that selling to the Luxembourg shareholders would be in the interests of SAirLines. He therefore recommended negotiating with Luxair over an increase in the purchase price. These negotiations subsequently resulted in an agreement with Luxair based on a sale price of USD 145 million.

The Creditors' Committee approved the sale of the Cargolux shares and the deal is currently about to be executed.

### **3. Sale of Pro Taxi AG**

Pro Taxi AG, headquartered in Kloten, was a wholly-owned subsidiary of S Air Services Invest AG, itself an SAirLines subsidiary. Pro Taxi AG operates a taxi company and a garage, and holds 100% of the share capital of Glanzmann Taxiservice AG, which is also based in Kloten.

The sale process was initiated in September 2005. Fifteen potential buyers were invited to submit an initial offer to purchase the shares of Pro Taxi AG. Of the potential buyers which were invited, seven submitted an initial purchase offer. The highest offer was CHF 2,233,000. The four potential buyers which had submitted the highest offers were then invited to complete due diligence procedures and view the company's operations. Once the due diligence process was completed, there remained two potential buyers with offers of CHF 2.3 million. Both offers included price adjustment mechanisms and obligations on the part of S Air Services Invest AG to provide representations and warranties. Thanks to the present competitive situation, the contract of sale could be drafted in such way that the price adjustment and representations and warranties clauses were

omitted. Pro Taxi AG was ultimately sold to Webiko Management AG for CHF 2.3 million and the transaction was completed at the end of December 2005.

**4. Loan to First Catering AG**

First Catering Production AG ("First Catering") operates in the airline catering segment, serving a number of airlines at Zurich Airport. In the period between 3 September 1998 and 30 December 1999, SAirGroup subsidiary S Air Relations AG ("S Air Relations") granted First Catering a total of eight loans (short-term loan agreements) totalling CHF 4,258,000 and USD 800,000, at various interest rates and for a term that was fixed in each case. All of the loans were subsequently extended several times up to 20 December 2001. Having absorbed S Air Relations, SAirLines became its successor in title on 26 June 2001. First Catering was notified of this fact in a letter dated 16 August 2001, when all loans were extended (ahead of their due date) until the end of 2002.

After SAirLines had been granted the debt restructuring moratorium on 5 October 2001, First Catering made a partial repayment of CHF 4,000,000 of the outstanding loans, with a value date of 19 February 2002. As part of a settlement offer made on 26 February 2002, First Catering then also proposed to SAirLines that the latter should waive claims to the remaining CHF 258,000 and USD 800,000. SAirLines did not agree to this settlement offer and insisted that the outstanding remainder be paid. From this point onwards, First Catering made no further repayments; neither did it pay any interest.

SAirLines subsequently requested several times in writing that First Catering pay the outstanding sums. Finally, in 2004, SAirLines filed two applications for the commencement of enforcement proceedings against First Catering. However, First Catering filed an objection against each of the summons to pay. On 19 January 2005, SAirLines then filed a petition against First Catering with the district court of Bülach to have the objection set aside. The proceedings ultimately reached an out-of-court settlement in which First Catering paid SAirLines CHF 1 million in settlement of all claims.

**IV. ASSESSMENT OF LIABILITIES**

Work on drawing up the schedule of claims was deferred owing to the great time pressure arising in the investigation and pursuit of avoidance claims pursuant to Arts. 286 – 288 of the Swiss Debt Enforcement and Bankruptcy Law (DEBL) since, under the terms of Art. 292 DEBL, such claims would have been deemed to be forfeited after 26 June 2005. Despite this delay, the schedule of claims is now largely complete. It will be submitted to the Creditors' Committee for approval in the next two months and then published for inspection by the creditors.

**V. ASSET STATUS OF SAIRLINES AS OF 31 DECEMBER 2005**

**1. Introductory remark**

In the Appendix, you will find a report on the liquidation status of SAirLines as of 31 December 2005, containing a statement of the assets of SAirLines in debt restructuring liquidation as of that date, according to present knowledge.

**2. Assets**

Open apportionment of proceeds from the sale of Swissport, Restorama, RailGourmet, Gate Gourmet and Nuance: It was not possible in 2005 to fully apportion the proceeds of the sales of the Swissport Group, Restorama AG, RailGourmet, the Gate Gourmet Group and the Nuance Group. The complex circumstances involved are currently still being examined. Efforts will be made to complete this outstanding work this year.

As-yet unrealized assets: As in the past, this category consists primarily of claims against former Swissair group companies and of participations and securities held by SAirLines. Any responsibility and avoidance claims are listed pro memoria.

**3. Debts of the estate**

Accounts payable: The accounts payable reported as of 31 December 2005 relate to costs incurred during the debt restructuring liquidation.

Provision for portion of salary costs for Close-Down Team: During the debt restructuring moratorium, SAirGroup bore the costs of services from which SAirLines also benefited. An agreement on the allocation of these costs should be concluded between the companies concerned within the next few months and then presented to the Creditors' Committees for approval. The approximate portion of these costs that SAirLines will have to pay is reflected in a provision of CHF 2 million in the liquidation status report as of 31 December 2005.

**4. Creditors' claims**

The Liquidators have largely finished assessing the registered claims with regard to the drawing up of the schedule of claims (see section IV above). The liquidation status report as at 31 December 2005 therefore reflects the current status of work to draw up the schedule of claims.

First-class claims: 176 former Swissair employees registered claims totalling CHF 91,708,477. These claims are rejected by the Liquidators on the grounds that SAirLines was not the actual employer of the creditors concerned.

Second-class claims: The Liquidators recognize the claim of CHF 3,083 that was registered by one creditor.

Third-class claims: Up to the end of December 2005, 166 creditors had registered claims worth a total of CHF 68,567,044,426. Of these claims, the Liquidators and the company have so far recognized CHF 1,251,876,923. The sum of the recognized claims may yet change before the schedule of claims is presented to creditors, however.

**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 0.9 % and 56.1 %.

**VI. PLANNED NEXT STEPS IN THE PROCESS**

The schedule of claims should be drawn up by the end of March 2006 and then presented to the Creditors' Committee for approval. It is then planned that the schedule of claims will be presented for inspection by the creditors in May 2006. Further information to creditors will be provided in the Circulars that are planned for May (publication of the schedule of claims) and autumn 2006.

Yours sincerely

SAirLines in debt restructuring liquidation

The Liquidators

Karl Wüthrich

Dr. Roger Giroud

Encl.: Liquidation status of SAirLines in debt restructuring liquidation, as of 31 December 2005

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**LIQUIDATION STATUS AS OF 31 DECEMBER 2005**

	<b>31.12.2005</b> <b>CHF</b>	<b>31.12.2004</b> <b>CHF</b>	<b>Change</b> <b>CHF</b>
<b>ASSETS</b>			
<b>Liquid funds</b>			
Cash	3	3	0
UBS AG CHF	236'676'007	222'616'558	14'059'449
UBS AG USD	2'311'037	1'631'010	680'027
UBS AG EUR	4'607	25'243	-20'636
Credit Suisse	20	0	20
ZKB CHF	1'808'720	1'036'400	772'320
Fixed-term deposits	155'000'000	0	155'000'000
<b>Total liquid funds</b>	<b>395'800'394</b>	<b>225'309'214</b>	<b>170'491'180</b>
<b>Liquidation positions</b>			
Accounts receivable	352'845	310'321	42'524
Advance on legal costs	564'153	364'153	200'000
Open apportionment of proceeds and escrow accounts from the sale of Swissport, Restorama, RailGourmet, Gate Gourmet and Nuance	65'000'000	65'000'000	0
Receivables from third parties	8'430'535	33'364'278	-24'933'743
Shareholdings, securities	240'006'249	309'903'358	-69'897'109
Responsibility claims	p.m.	p.m.	
Pauliana claims	p.m.	p.m.	
<b>Total liquidation positions</b>	<b>314'353'782</b>	<b>408'942'110</b>	<b>-94'588'328</b>
<b>TOTAL ASSETS</b>	<b>710'154'176</b>	<b>634'251'324</b>	<b>75'902'852</b>
<b>LIABILITIES</b>			
<b>Debts of the estate</b>			
Accounts payable	20'599	955'338	-934'739
Provision for portion of salary costs for Close-Down Team	2'000'000	1'500'000	500'000
Provisions for liquidation costs	6'232'500	6'232'500	0
<b>Total debts of the estate</b>	<b>8'253'099</b>	<b>8'687'838</b>	<b>-434'739</b>
<b>TOTAL DISPOSABLE ASSETS</b>	<b>701'901'077</b>	<b>625'563'486</b>	<b>76'337'591</b>

**CREDITORS' CLAIMS**

Category	Registered	by SAirLines or the Liquidator		Dividend	
		contested	recognised	min.	max.
Secured by right of lien	0	0	0		
First class	91'708'477	91'708'477	0	100.0%	100.0%
Second class	3'082	0	3'082	100.0%	100.0%
Third class	68'567'044'426	67'315'167'503	1'251'876'923	0.9%	56.1%
<b>Total creditors' claims</b>	<b>68'658'755'985</b>	<b>67'406'875'980</b>	<b>1'251'880'005</b>		