

SAirGroup AG
in debt restructuring liquidation

Circular No. 27

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**Hotline SAirGroup AG
in debt restructuring liquidation**

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To the creditors of SAirGroup AG
in debt restructuring liquidation

Küsnacht, December 2016

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SAirGroup AG in debt restructuring liquidation; Circular no. 27

Dear Sir or Madam

This Circular provides information on the current status of the SAirGroup AG debt restructuring liquidation proceedings, as well as on how these proceedings are scheduled to progress over the coming months.

I. LIQUIDATION OF ASSETS

1. SALE OF THE SHARES IN THE "CENTRE SWISSAIR", GENEVA

At the end of the 1980s, SAirGroup, at that time still Swissair Swiss Air Transport Company Ltd, built the "Centre Swissair" office and commercial building in Geneva together with the Canton of Geneva and the IATA. The building was constructed as a general condominium based on a building lease granted by the Canton of Geneva. The new construction value of the building at that time, with respect to SAirGroup's share, came to around CHF 67 million.

When the Swissair group was restructured in 1997, the properties in Switzerland should have been transferred to the Avireal group. However, for tax reasons it was decided to leave the shares in the "Centre Swissair" with SAirGroup. As part of the SAirGroup debt restructuring proceedings, the management of the property and

allocation of the rental income had to be separated from Avireal SA Suisse Romande, however, and the relationships with Geneva Airport clarified. In the past 15 years it has always been possible to rent out a very large part of the office premises at good terms and conditions with a net rental income totalling around CHF 54 million.

In spring 2016 the Liquidator initiated the sale of SAirGroup's shares in the "Centre Swissair" in consultation with the Creditors' Committee. The Liquidator had received bids from eight interested parties by the end of June 2016. The best bid with a purchase price of CHF 72 million was submitted by Aéroport International de Genève, Entreprise droit public, ("AIG"). The other bids were lower than this price. This can be explained above all by the relatively complex structure (building lease and general condominium) and the various pre-emptive rights of the Canton of Geneva encumbering the building.

Based on this starting situation, the Liquidator decided to accept AIG's bid subject to the approval of the Creditors' Committee. The likelihood of receiving a higher bid in a further bidding round appeared to be low based on the existing bids. Moreover, it was clear that the sale to AIG could be completed without problems as the Canton of Geneva had no interest in exercising its pre-emptive rights in this case.

The contract of sale with AIG was signed in September 2016. The Creditors' Committee approved the contract of sale at its meeting in November 2016. The sale of SAirGroup's shares in the "Centre Swissair" was then completed. The purchase price has been received by SAirGroup.

2. SALE OF THE CLAIMS AGAINST THE VOLARE COMPANIES

The Volare group was an holding company set up in 2000 which united Volare Airlines and Air Europe under one roof. At the end of 2000, SAirLines AG held a 49.79% stake in the Volare group. On 1 February 2001 SAirLines AG sold the stake in the Volare group to the co-shareholder Gino Zoccai, respectively a company controlled by him. Reciprocal claims between the companies of the Swissair group and the Volare companies were settled on that occasion. Within the scope of this transaction, the Volare companies undertook to pay a total of CHF 70 million to the companies of the Swissair group involved.

Payment problems on the part of the Volare companies led to the sale agreement being modified several times and the payment deadlines being extended. At the end of 2004 the three Volare companies were declared insolvent in Italy. Up until

this point in time, the Volare companies, Gino Zoccai and the banks that had provided guarantees had paid around CHF 66 million to the Swissair companies. SAirGroup registered the claims for the outstanding capital and interest for each of the Swissair companies in the insolvency proceedings of the Volare companies. In January 2006 claims amounting to EUR 4,095,855.43 were admitted as non-privileged claims in each of the three proceedings. Since then no interim payments have been made to the creditors in these proceedings. No information regarding the status and probable outcome of the insolvency proceedings is available. It is unclear how long the proceedings will last.

In June 2016 Duepuntozero NPL S.p.A. ("Duepuntozero"), an Italian investment company, announced that it was interested in acquiring the recognised claims of the Swissair companies against the Volare companies. Negotiations were then held and SAirGroup reached an agreement with Duepuntozero in October 2016 to sell the claims for a total price of EUR 600,000. The Creditors' Committee and the Swissair companies involved have in the meantime approved the sale of the claims against the Volare companies. SAirGroup will receive EUR 121,840 (20.3067% of EUR 600,000) from this sale.

II. SETTLEMENT OF CLAIMS WITHIN THE GROUP

1. SETTLEMENT WITH SAIRLINES AG IN DEBT RESTRUCTURING LIQUIDATION REGARDING RECIPROCAL CLAIMS

In the debt restructuring proceedings against SAirLines AG in debt restructuring liquidation ("SAirLines"), SAirGroup registered claims in various currencies equivalent to a total of around CHF 3 billion, of which around CHF 250 million with preferential rights to the assets of S Air Logistics AG, S Air Relations AG, S Air Services AG and Roscor AG which merged into SAirLines. The main reasons given by SAirGroup for these claims were loans, challengeable acts and compensation for services within the group.

SAirLines in turn registered claims in various currencies equivalent to a total of around CHF 315 million in the debt restructuring proceedings against SAirGroup. The main reasons given by SAirLines for these claims were loans, challengeable acts and compensation for services within the group. Furthermore, it asserted responsibility claims against SAirGroup as the de facto corporate body of SAirLines.

The Liquidator of SAirGroup on the one hand and the Co-Liquidator of SAirLines on the other examined the claims registered in each case. They took up

negotiations in spring 2016 to settle the reciprocal claims. The litigation risks in relation to the claims disputed in each case were discussed in these negotiations. Both parties were in agreement that legal disputes would be lengthy owing to the complexity of the matter and that the outcome of such legal proceedings could not be predicted. For this reason an amicable solution that was acceptable for both parties was sought.

The negotiations ended successfully in september 2016 with the conclusion of a settlement with the following key points:

- SAirGroup reduces its registered claims against SAirLines to CHF 1,000,000,000. SAirLines recognises the claims in this amount. The recognised claims are included in SAirLines's schedule of claims as follows:
 - CHF 50,000,000 with a preferential right to the assets of S Air Logistics AG;
 - CHF 30,000,000 with a preferential right to the assets of S Air Services AG;
 - CHF 70,000,000 with a preferential right to the assets of S Air Relations AG;
 - CHF 850,000,000 included in the third class.
- SAirLines fully withdraws its registered claims against SAirGroup.
- The payment of the four interim payments due totalling 14.4% on the recognised claim of CHF 850 million as well as the payment of the interim payment of 100% on the recognised claims with preferential rights totalling CHF 150 million will be made after the settlement comes into force and after it has been announced to the creditors of SAirGroup and SAirLines.
- Once this settlement is fulfilled, the parties declare all claims to have been settled. Any debts incurred in the course of the liquidation proceedings as well as claims in respect of the distribution of sale proceeds in connection with the realisation of assets, the allocation of which is still open at present, are excluded from this settlement clause.
- The settlement comes into force if it is approved by the Creditors' Committees of SAirGroup and SAirLines.

The Creditors' Committees of SAirGroup and Swissair approved the settlement at their meetings in November 2016.

As a result of this settlement, the reciprocal claims between SAirGroup and SAirLines will be settled without lengthy court proceedings. SAirGroup will receive the further dividend payments from SAirLines like all other creditors. SAirLines has no more creditors' claims against SAirGroup.

2. SETTLEMENT WITH FLIGHTLEASE AG IN DEBT RESTRUCTURING LIQUIDATION REGARDING RECIPROCAL CLAIMS

In the debt restructuring proceedings against Flightlease AG in debt restructuring liquidation ("Flightlease"), SAirGroup registered claims in various currencies equivalent to a total of around CHF 462 million. The main reasons given by SAirGroup for these claims were loans and compensation for services within the group.

Flightlease in turn registered claims in various currencies equivalent to a total of around CHF 562 million in the debt restructuring proceedings against SAirGroup. The main reasons given by Flightlease for these claims were loans and challengeable acts. Furthermore, it asserted responsibility claims against SAirGroup as the de facto corporate body.

The Liquidator examined the claims registered in each case with his team and worked out a proposal for a settlement to settle the reciprocal claims. When working out this settlement proposal, he took the following aspects into consideration:

- The reciprocal loan claims are essentially justified.
- Flightlease's objection to the effect that the loans from SAirGroup as the group parent are to be treated as subordinated loans is assessed as having little prospect of success in view of case law of the Swiss Federal Supreme Court. This aspect will only be taken into consideration by making a small deduction in respect of a loan from SAirGroup from 2001.
- The avoidance claims asserted by Flightlease are assessed differently and are taken into consideration in the settlement proposal depending on the estimated risk.
- The reciprocal loan claims can be offset against each other. On the other hand, the offsetting of loan claims with avoidance claims is ruled out.

At the Liquidator's request, the Creditors' Committees of SAirGroup and Flightlease approved the conclusion of the following settlement to settle the reciprocal claims between SAirGroup and Flightlease:

- Flightlease reduces its registered claims against SAirGroup to CHF 74 million. SAirGroup recognises these claims in the schedule of claims in the third class.
- SAirGroup fully withdraws its registered claims against Flightlease.

- The interim payments paid by SAirGroup to its creditors to date totalling 12% will be paid out to Flightlease on the recognised claim of CHF 74 million after the settlement comes into force and after it has been announced to the creditors of SAirGroup and Flightlease.
- Once this settlement is fulfilled, the parties declare all claims to have been settled.
- The parties acknowledge that this settlement is effective only vis-à-vis them and results in no exemption or limitation in respect of the liability of any joint and severally liable parties and/or parties entitled to recourse under responsibility provisions in corporate law.

As a result of this settlement agreement, the reciprocal claims between SAirGroup and Flightlease will be conclusively settled. Flightlease will receive the further dividend payments from SAirGroup like all other creditors. SAirGroup in turn no longer has any claims against Flightlease.

3. SETTLEMENT WITH SWISSAIR SWISS AIR TRANSPORT COMPANY LTD IN DEBT RESTRUCTURING LIQUIDATION REGARDING RECIPROCAL CLAIMS

In the debt restructuring proceedings against Swissair Swiss Air Transport Company Ltd in debt restructuring liquidation ("Swissair"), SAirGroup registered claims in various currencies equivalent to a total of around CHF 160 million. The main reasons given by SAirGroup for these claims were compensation for services within the group and challengeable acts.

Swissair in turn registered claims in various currencies equivalent to a total of around CHF 4 billion in the debt restructuring proceedings against SAirGroup. The main reasons given by Swissair for these claims were loans, damages in connection with lease agreements, challengeable acts, responsibility of SAirGroup as a de facto corporate body of Swissair, and compensation for services within the group.

The Liquidator of SAirGroup on the one hand and the Deputy Liquidator of Swissair on the other examined the claims registered in each case with their teams. They took up negotiations in spring 2016 to settle the reciprocal claims. The litigation risks relating to the claims disputed in each case were discussed in these negotiations. Both parties were in agreement that legal disputes would be lengthy owing to the complexity of the matter and that the outcome of such legal proceedings could not be predicted. For this reason an amicable solution that was

acceptable for both parties was sought. The negotiations ended successfully in September 2016 with the conclusion of a settlement with the following key points:

- Swissair reduces its registered claims against SAirGroup to CHF 1.5 billion. SAirGroup recognises these claims in the schedule of claims in the third class.
- The claim amounting to CHF 195,593,132.86 registered by Swissair in connection with allegation of participation in the group cash pool is excluded from this. This claim remains suspended. The liquidation bodies of SAirGroup will decide as to whether to recognise or reject it after the responsibility proceedings against various defendants currently pending at the Commercial Court of the Canton of Zurich (reference no.: HG130073) are legally concluded.
- SAirGroup fully withdraws its registered claims against Swissair.
- The interim payments paid by SAirGroup to its creditors to date totalling 12% will be paid out to Swissair on the recognised claim of CHF 1.5 billion after the settlement comes into force and after it has been announced to the creditors of SAirGroup and Swissair. Swissair will participate in further interim payments and the final dividend in accordance with the recognised claim.
- Once this settlement is fulfilled, the parties declare all claims to have been settled. The claim in connection with the allegation of participation in the group cash pool, any debts incurred in the course of the liquidation proceedings as well as claims in respect of the distribution of sale proceeds in connection with the realisation of assets, the allocation of which is still open at present, are excluded from this settlement clause.
- SAirGroup acknowledges that this settlement is effective only vis-à-vis it and results in no exemption or limitation in respect of the liability of any joint and severally liable parties and/or parties entitled to recourse under responsibility provisions in corporate law.
- The settlement comes into force if it is approved by the Creditors' Committees of SAirGroup and Swissair.

The Creditors' Committees of SAirGroup and Swissair approved the settlement at their meetings in November 2016.

As a result of this settlement, the reciprocal claims between SAirGroup and Swissair will be largely settled without lengthy court proceedings. Swissair will receive the further dividend payments from SAirGroup like all other creditors. SAirGroup has no further creditors' claims against Swissair.

III. DIVIDEND

The asset side of SAirGroup's balance sheet has now essentially been settled. The distribution of the sales proceeds for the properties abroad between Swissair and SAirGroup as well as responsibility claims are still open. As regards the claims against group companies that are in insolvency proceedings at home and abroad, it is a question of waiting for the receipt of the insolvency dividends on the recognised claims.

Based on current knowledge, a dividend totalling between 19% and 23% can be anticipated. Of this, 12% has already been paid out in the first four interim payments. The dividend still to be expected in future will amount correspondingly to between 7% and 11%.

IV. 5. INTERIM PAYMENT

As a result of the settlement of the transactions described in Sections I. and II. above, relatively large amounts of liquid funds will be allocated to the estate, and provisions for the suspended claims that now do not have to be recognised will be released. It will therefore be possible in the first half of 2017 to pay out a fifth interim payment of 5% to creditors with recognised third-class claims.

I will inform the creditors in spring 2017 by means of a circular about the 2016 report on activities and the execution of the fifth interim payment.

Kind regards

SAirGroup AG in debt restructuring liquidation
The Liquidator:

Karl Wüthrich

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